

THE INDONESIAN QUARTERLY

Indonesia's Economy, Domestic Politics, and External Relations

- Current Events
- Economic Efficiency and Policy
Incentives of Rice Production
in Indonesia
- Recent Changes in Indonesia's Policy
on Foreign Direct Investment
- Indonesia's Trade Relations
with Eastern Europe
- Indonesia in 1988:
Progress in Democratic Experiment?
- Indonesian Domestic Politics and
Its Impact on Foreign Policy
- Book Reviews



The Quarterly

The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang 111/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidhartha, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*," which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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Current Events

Outlook for the Indonesian Economy 1989-1990

Suhadi MANGKUSUWONDO

THE INDONESIAN economy is still struggling to get out of the vulnerable situation of over-dependence on oil and natural gas. Since 1972/73, for about a decade, when oil prices in the world market increased rapidly, the development of the Indonesian economy was very much determined by the oil sector. This was most clearly reflected in the structure of the balance of payments and in the budget of the Central Government.

During the 12-years period from 1970 through 1981 export revenues from oil and gas increased at an annual rate of 45.5 per cent in current US dollars. The economy as a whole was growing in real terms at more than 7 per cent per annum. The share of oil and gas in total export revenues which in FY

1970 was 37 per cent, jumped to 74 per cent in FY 1975 and rose again to 82 per cent in FY 1981. The share of oil and gas in total domestic revenues in the Central Government budget was 29 per cent in FY 1970, jumped to 56 per cent in 1975 and 71 per cent in 1981.

From these figures it is quite clear how dominant was the role of oil in the Indonesian economy until very recently. The trouble began when in 1983 oil prices went down sharply, and again in 1986. This had considerable consequences for the Indonesian balance of payments as well as for government revenues, and consequently also for the whole economy. It created a crisis situation, threatening a near collapse of the whole economy.

For 5 consecutive years, from FY 1982 through 1986, export revenues from oil went

down from \$14.7 billion in 1982 to \$6.97 billion in 1986, or an average decline of 16.4 per cent per year in current US dollars. As a consequence the growth of the economy slowed down to less than 3 per cent per year for the period of 1981-86, or less than half the growth rate during the preceding decade.

After coping with the short-run crisis in the balance of payments, the government adopted policies directed towards broadening the basis of the economy over the medium and long run, moving away from over-dependence on oil, and at the same time also away from too much reliance on exports of raw materials such as rubber, coffee, palm-oil, spices, and tin. Actually, this policy was adopted when the oil crises started in 1983.

Therefore, the emphasis of government policy during the last 5 years was put on exports of non-oil commodities, particularly products of labour-intensive and natural resource based industries. At the same time high priority was given to increasing government revenues from the non-oil sector through intensified taxation, and to increasing private savings through the banking system and through the newly established money and capital market.

Partly due to these efforts in 1986 (FY) the share of oil and gas in total merchandise exports again declined to 51 per cent (from the peak of 82 per cent in FY 1981). Similarly the share in total government domestic revenues was down to 39 per cent (from the peak level of 71 per cent in FY 1981). These percentages, however, are considered still too high. The economy needs to diversify further in the coming years.

The main instruments used to boost non-oil exports are firstly, to keep the exchange

rate of the rupiah at a level which will enable domestic producers to compete in the world-market. This was done by two substantial devaluations of the currency, in 1983 and in 1986, after the sharp drops in oil prices, and by gradually depreciating the currency in line with the differentials in inflation rates in Indonesia and in the main export competing countries. Secondly, exports was stimulated through a number of deregulation measures, designed to induce the private sector to enter the export business more vigorously.

As mentioned earlier, efforts to raise more government revenues from the non-oil sector was done by improved and intensified taxation. At the moment the average tax burden in Indonesia is still lower compared to other countries at comparable levels of income. Therefore, efforts are being made to increase tax revenues by simplifying tax procedures and by improving the government tax machinery.

At the same time the banking and other financial institutions have also been deregulated, with a view to improve their capacity and efficiency in mobilizing private savings and in channeling them to productive sectors. The success of the Indonesian program in the coming years will mainly be determined by the success of the efforts in these two areas: exports of non-oil products and mobilization of increased domestic savings.

Apart from those 2 problem areas, another problem confronting the Indonesian economy at the moment is the heavy external debt-burden. During the 1970s, even when revenues from oil were increasing rapidly, the governments external debt was also growing. After the oil set-back of 1983, foreign borrowing intensified, and at the

moment the amount of total external debts is estimated at around \$50 billion. With total exports amounting to around \$19 billion in 1988, this gives a debt-export ratio of more than 260 per cent, which is higher than the average for all the developing countries (around 160 per cent) and much higher than the average for the developing countries in Asia (around 90 per cent).

With such a high level of foreign borrowings, Indonesia is now facing rapidly rising debt service payment obligations. The debt burden became even worse because of rising interest rates in the world market and because of the sharply increasing rate of exchange of the Japanese yen, German mark and some other currencies in which a substantial part of Indonesia's debts are denominated. Therefore, the pressure on the balance of payments will continue in the coming few years and needs to be watched carefully by the monetary authorities.

A fourth problem that needs mentioning is the labour absorption problem. Even when the manufacturing sector managed to grow rapidly during the last few years, it turned out that the capacity of that sector to bring relief to the labour problem is grossly inadequate. And even when the government's family planning program was quite successful in bringing down the average birth rates, the number of young people entering the labour force kept on increasing rapidly. For the time being the growing labour force has not created a serious problem of open unemployment, since a large part of new entrants are being absorbed in the informal sector, where productivity and income are very low. But many people are concerned that the situation cannot continue for much longer before the social and political situation will start to deteriorate rapidly.

Those are some of the main issues confronting the Indonesian economy. With such a background we have made a forecast for the years 1989 and 1990.

In forecasting the Indonesian economy for 1989 and 1990, the following assumptions have been used.

- a. We assume that the government will continue with its present policies, particularly to achieve a satisfactory growth rate for the economy, while keeping in mind the balance in the country's external payments and keeping the rate of inflation under control.
- b. This means that efforts to boost exports of non-oil products will continue. For that purpose, in our forecast we assume that the exchange rate of the rupiah will depreciate with 8.6 per cent per year for the next two years, with an inflation rate of around 11 per cent per year (as measured by the GDP deflator).
- c. The exchange rate of the Japanese yen against the US dollar is another important input for our projection. For 1989 we assume a strengthening of the Japanese yen to reach an average of 117.25 yen per dollar and a slight reversal in 1990 to reach 119.25 yen for the dollar.
- d. For commodity prices we assume a slight decrease in 1989 and an increase in 1990 to a level somewhat higher than in 1988.
- e. For oil prices, our assumption is constant at an average of \$16 per barrel throughout the 2 years period.
- f. Interest rates are assumed to increase in 1989 and to level off in 1990.
- g. Another important input for our projection is the rate of growth of the population. For our purpose we adopted the

growth rates used in the present 5 year development plan, which is 2.1 per cent for 1989 and 2.0 for 1990.

With those assumptions, the main results of our forecast are as follows:

- a. Real GDP growth rate, which for 1988 is estimated at 4.74 per cent, will rise to 5.35 per cent in 1989 and 5.11 per cent in 1990. These estimates are higher than the official figures used in the present 5 year development plan. This means that the economy will continue to improve gradually from the depressed state of 1985 and 1986, although the rate of growth will still be substantially lower than during the high growth period of the 1970s.
- b. The main contributing factors towards the higher growth of the economy are increased government spending, particularly government investments, projected to increase by 20 per cent in 1989, and public consumption with an increase of 8.37 per cent. Non-oil exports will also provide a strong impulse for the economy during 1989, with an increase of 13.44 per cent over the preceding year.
- c. For 1990 the stimulus will come mainly from non-oil exports (increasing in real terms with 6.03 per cent) and private consumption expenditures (to increase with 5.6 per cent).
- d. Production in agriculture will improve steadily, achieving a growth rate of 3.62 per cent in 1989 and 3.67 per cent in 1990, higher than the growth rate during the previous 3 years period.

e. The manufacturing sector, as expected, will be the fastest growing sector in the economy, growing at 7.47 per cent in 1986 and 7.65 per cent in 1990.

f. Debt-service payments, as percentage of total exports which was estimated at 39.9 per cent for 1988, will decline to 38.2 per cent and 35.4 per cent in 1989 and 1990 respectively. These ratios are high compared to many other developing countries.

g. The inflation rate, as measured by the GDP-deflator, which in 1988 was estimated at 14.6 per cent will decline to 11.3 per cent in 1989 and 4.87 per cent in 1990.

h. Domestic savings are projected to increase with 3.87 per cent in 1989 and with 4.29 per cent in 1990.

The overall picture that emerges from the forecast is one of a gradual improvement of the economy in the next 2 years. The growth rate achieved will be modest if compared to the other developing countries in the region.

Some sensitive problems still need to be overcome, in particular the heavy external debt burden and the absorption of the fast growing labour force in productive employment. But the structure of the economy becomes more balanced, the non-oil economy will achieve slightly higher growth than the economy as a whole (5.22 per cent in 1988, 6.01 per cent in 1989 and 5.8 per cent in 1990). Consequently, the share of the oil and gas sectors in total GDP, which in 1986 was estimated at around 21 per cent, will decline to 18.4 per cent in 1988 and less than 18 per cent in 1989 and 1990.

The Ninth Non-Aligned Summit

A.R. SUTOPO

IN THE FIRST WEEK of September 1989, over one hundred non-aligned states convened a summit meeting in Belgrade, the capital city of Yugoslavia. This was the ninth meeting of the heads of state or government in the history of the movement, 28 years after the first summit in the same city in 1961 attended by 25 representatives. While for the whole world it might raise a question on the continuing relevance of the movement in the light of changing international environment, for Indonesia its presence in the summit indicates some political highlights considering that it was the first appearance of President Soeharto after nearly two decades of absence since the 1970 Lusaka Summit.

In a sense, the fact that so many states took part as full participants, some as observers and others as guests in Belgrade seems to confirm the relevance of the movement. Apart from the presence of the 102 member states, the summit was also attended by ten states as observers and 19 guest countries, a status which is usually reserved for neutral states but which now includes some allied countries as well, nine international organizations and liberation movements as observers and about 30 other organizations and liberation movements as guests. This

signifies that the participating countries are interested in exerting their influence on policy lines and actions that may be taken by the movement in the current changing international environment. In other words, seen from this perspective, the activities of the non-aligned movement have not lost their importance in dealing with international problems.

In contrast to the environment surrounding the first summit when bipolar, East-West confrontation was at the peak in which political and military alliances were a dominant feature, the last summit was held when the international environment was changing from confrontation to reconciliation in which military alliances are beginning to play a less paramount role. Quite clearly the Declaration produced by the summit recognises the changing environment when it says: "The world is at a crossroad: tension is no longer a breaking point but neither is peace stable..."

However, it is ironical and disappointing that countries which are members of political and military alliances, be it in NATO or the Warsaw Pact, at least during the existence of the non-aligned movement, and almost surely since the end of World War II,

seem to have enjoyed peace more than have many non-aligned countries. It is ironical because the non-aligned movement has devoted so much energy against military alliances in the name of world peace, while in its own world, conflicts have characterized the inter-relationship of many member countries. It is disappointing because some of those among the non-aligned states that have been ceaselessly advocating peace on earth are themselves involved in military engagements, though some at low levels, causing substantial damage such as in the case of India-Pakistan, Libya-Chad, and Iran-Iraq conflicts. Thus past performances in this regard were not encouraging. Strange though it may be to many, the world outside the non-aligned movement appears more peaceful! Therefore, the non-aligned movement needs to correct those malicious environment among its member states.

This does not mean that military might at the global level does now pose a less formidable threat to the security and survival of mankind. The nature of threat emanating from nuclear weapons and arms modernization remain unchanged significantly. But it is equally important to notice that the present international relations is characterised by a multipolar world as is also recognised in the Declaration of the Ninth Summit: "... Without our historic contribution to the successful implementation of the decolonization process, the emerging multipolarity of the world characterized by growing interdependence of all members of the international community would be inconceivable." However, peaceful environment between many non-aligned member states has continued to be a scarce commodity, although the political language of the Declaration has not changed much in this regard, particularly the

call for peaceful settlement of disputes between states.

It seems obvious now that at least one element of the original rationale for the establishment of the movement, namely the once tight bipolar system of international relations, needs to be reconsidered as to its relevance to the future of the movement. Today superpower relations is characterised by an increasingly accomodative approach as a result of greater realization on the part of both superpowers that ideological differences between states mixed with military competition would only mean that the accident of war becomes more likely. Dctente is replacing the rigid and confrontative relationship between blocs. Even the level of regional conflicts, at least in some spots of the world, is also decreasing. Whether it is a matter of coincidence, or a direct impact of the detente in superpower relations, is not quite clear. But it is important to notice the less hostile nature of political and military relations among states. So the question is whether such a development is also taking place in other sectors.

Meanwhile, one of the non-aligned movement's objectives has been to work for a better world, characterised by peaceful relationship among nations in a more equitable, prosperous condition. Seemingly, it is still a relevant theme and platform to guide the future direction of the non-aligned movement. A consequence of the lessening confrontative relations between East-West ideological, political and military blocs and the changing environment towards a more multipolar world is that countries can no longer assure their proper places in the new system of a multipolar balance of power or their efforts to gain supremacy relying primarily on approaches based on the force of military

might and alliances.

It seems now that nations would seek their places in such a world through economic and technological power, as testified by most of the industrial economies and the so-called new industrialised economies (NIEs). In other words, the world now tends to be polarized mainly between the economically and technologically advanced, rich states and the economically and technologically disadvantaged, poor states. If this is true, then the majority of the non-aligned states which are lagging behind in these fields should be concerned more with the problem if they do not want to be left far behind permanently. This raises the question of how to narrow down, if not to abolish totally, the gap between the rich and the poor, between the advanced and less developed, between creditor and debtor, at the international level through concerted efforts.

Indeed, the non-aligned movement is not lacking in vision and inspiration of economic and technological co-operation among states, including that between the developing and the developed worlds. Its economic declarations produced so far have testified these. More importantly, the last non-aligned summit has produced a kind of economic blueprint for action, covering debt problems, development finance, monetary issues, and international trade and commodities. A call for co-operation in science and technology and in dealing with social and cultural problems, including environmental issues, is also put forward. But there appear to be little serious efforts among the movement's member states devoted to the realization of their declarations.

The question is whether the non-aligned states still face the same common problems

and share the same common interests at present as in the past. Indeed, to examine this question is beyond the scope of this brief commentary. But the Declaration adopted by the summit also contains an acknowledgement that the movement now needs a new sight in dealing with the new international environment. It has become a tradition in the non-aligned declarations and documents to employ a high-flown language on issues of global and regional politics and security that need not to be given emphasis here. But it is important to stress the ever-increasing awareness of the movement regarding social and economic problems faced by the majority of its member states. As issues related to bipolar system, political independence, colonialism and the like decrease, social and economic problems are increasingly becoming prominent within the movement because it is now obvious that the stability and peace in the world cannot be achieved without seriously dealing also with such problems. Rightly, the last summit dealt with these issues.

The role of the host country in this regard should not be overlooked. When the first summit was convened almost two decades ago, Yugoslavia played not a small role in the non-aligned movement in relation to proposals for reduction of tensions in superpower relations. And now the nature of the challenges faced by the world is weighed more in social and economic terms, once again Yugoslavia, as host, plays a major role in providing guidance and in drafting the economic document. Once again this time the movement needs not only a vision but also strong unity in dealing with the multi-faced challenges of the world. Unfortunately, unity within the non-aligned movement seems to have been weakened recently, indicating that rifts between the radicals and the

pragmatists continue to compete to give directions to the movement.

One major indication is the indecisiveness of the movement on the venue of the next summit scheduled in 1992. The members of the movement reached a consensus only that they let the ministerial meeting scheduled in 1991 in Ghana decide the matter. Never before the 1986 Harare Summit had the movement had to deal with such a delicate problem. The heart of the matter is the equal determination of Indonesia and Nicaragua to be the host country of the next summit, and therefore to occupy the chairmanship of the movement thereafter. For Nicaragua, being host of the summit would allow it to mobilise international public opinion in support of the Sandinista government against the so-called colonialistic and imperialistic United States interference in its domestic affairs.

Being one of the movement's founders, Indonesia feels that after the Harare summit it is now its turn to host such a prestigious meeting among third world countries since other founders (Yugoslavia, Egypt, India) -- except Ghana -- have hosted such events. Behind this is Indonesia's concern to maintain the purity of the principles that guide the behaviour of the non-aligned movement in dealing with international problems. Furthermore, it has been suggested that Indonesia's bid for chairmanship is also influenced by the fact that external recognition of what has been achieved by Indonesia so far in its national development has encouraged other non-aligned countries to suggest that Indonesia should host the next non-aligned summit. Apart from those reasons, both President Soeharto and the Indonesian Foreign Minister, Mr. Ali Alatas, as well as his predecessor, Mr. Mochtar Kusumaatma-

dja, have stressed that Indonesia has no ambition to chair the movement. Meanwhile the real merits of Indonesia being host to the non-aligned summit and thus chairman of the movement, in political as well as economic terms, may be open to debate.

President Soeharto, however, on the way home from his trip to Eastern Europe attending the non-aligned summit in Yugoslavia and visiting the Soviet Union, gave a press conference aboard the airplane saying, among other things, to the effect that the weight of a country's foreign policy is determined by domestic conditions. This statement was made to explain why the President had been absent since the 1970 Lusaka Summit. Since in his view Indonesia at that time had not been able yet to show any success to other states, he decided to concentrate his attention more on domestic affairs and development. Now, however, certain levels of success have been achieved which can be used to give weight to the execution of Indonesia's independent and active foreign policy.

In other words, the presence of President Soeharto in the ninth non-aligned summit served to indicate that Indonesia is pursuing a more *active* policy to balance the *independent* dimension of its foreign policy implementation during the New Order government. Indeed, because of domestic imperatives, for many years Indonesia adopted a "low profile" in international arena and set its own order of priority in support of internal social, economic and political development. One of the consequences has been, particularly in the past, that Indonesia has frequently been criticized by some non-aligned members of being too busy with its own affairs and of not giving enough attention to other developing countries. The

worst is the charge that Indonesia has abandoned the non-aligned principles and turned its face to the Western bloc. Even at the domestic level, critics argue that Indonesia's low profile in foreign policy should be corrected so as to serve its broader interest.

In the past few years, however, Indonesia

has shown a more active posture in foreign policy than a decade ago, for example, as shown in the Jakarta Informal Meeting (JIM) to seek a solution to the Kampuchean conflict, the effort to expand trade relations with the socialist countries, and so on. Its bid for chairmanship of the non-aligned movement may be assessed in this light.

The Visit of Pope John Paul II to Indonesia

Daniel SETYAWAN

THIS IS the second time that a Pope has visited Indonesia, a six-day visit, so far the longest of all his visits in Asia. The first was made by Pope Paul VI in 1970.

Arriving on October 9 from Seoul the Pope started his visit, during which he was to travel about 8,000 kilometres to make his pastoral visits, celebrate masses, meet with Indonesian prominent leaders, Catholics and leaders of various religious groups.

The Pontiff made a courtesy call on the President and Mrs. Tien Soeharto immediately after arrival, celebrated mass with over 120,000 Catholics at Senayan Sports Stadium, met with the Vice-President and Mrs. Sudharmono and attended state reception at the Presidential Palace. The Pope also had an hour long talk with President Soeharto before the reception.

On the second day the Pope flew to Yogyakarta early in the morning and celebrated mass with the "sons and daughters of Java," as he put it, at Dirgantara field. In the afternoon after returning to Jakarta, he met with leaders of various religious groups at Jakarta's Indonesia in Miniature Park (TMII). In the evening, he celebrated Mass with the Catholic Religious and priests in the Jakarta Cathedral.

The Pope flew about 1,700 kilometres to Maumere, Flores, on the third day, where he celebrated Mass with over 100,000 Catholic believers at the Samador Stadium, and spent the night at St. Peter Major Seminary the only place where he stayed overnight outside Jakarta during the visit.

On the fourth day Pope John Paul II flew from Maumere to Dili, East Timor, and celebrated Mass with about 200,000 be-

lievers. He also blessed the Immaculata Conception Cathedral in Dili, which was inaugurated by President Soeharto on November 2 last year. The Pontiff then travelled around 2,100 kilometres back to Jakarta to inaugurate the new building of Atma Jaya Catholic University and held talks with Catholic students and intellectuals.

On the fifth day, his last pastoral visit, the Bishop of Rome flew to Medan to meet and celebrate Mass with the local Catholics at Tuntungan field and then returned to Jakarta. Before flying to Mauritius and returning to the Vatican City the Pope had a third meeting with President and Mrs. Soeharto to bid farewell.

One may view the Papal visit as an ordinary state visit which is often paid by heads of state. However, the Pope being the head of the Catholic Church, the six-day visit had a pastoral rather than a state character.

Before the visit, the international world had been spotlighting this event and many speculations and interpretations had been circulating around it, especially with regard to East Timor. It has also been feared that the Pontiff would make statements having adverse implications for the Indonesian Catholics and the nation as a whole. He had been expected to have talks concerning the position of East Timor which is considered a sensitive issue. Being a globetrotter with quite a number of calls to countries all over the world Pope John Paul II is a very popular international figure rivalling other heads of state such as Gorbachev or Ronald Reagan. His statements would certainly exert great influence on world opinion.

However, it turned out that none of the fears were realized. Celebrating Holy Mass at Senayan Stadium the Pope told the Ca-

tholic worshippers there to rededicate their lives to humanity. He said further, that they should be fully Catholics and fully Indonesian citizens. Quoting a verse from the Gospel he said, "Render unto Caesar the things which are Caesar's, and unto God the things that are God's," which is an allusion to the relation of church and state. These remarks were made in accordance with the theme of the Holy Mass which was: "Catholics as Citizens Based on *Pancasila*" (the five principle of the Indonesia's state ideology).

Further, speaking at a reception held by President Soeharto in his honour the Pope expressed his admiration for Pancasila Ideology and praised the Indonesian tradition teaching deep respect for human life, the inalienable rights of the human person and for the freedom of respectable citizens to determine their own future as people. He also expressed great admiration for the religious harmony and tolerance among various religious groups in Indonesia.

In that reception President Soeharto underlined that Pancasila had played a key role in uniting the nation. He said that "... the practical application of the principle of Belief in One God in Indonesia's development is demonstrated by, among other things, the common responsibility of all religious groups and the believers in One God to lay down, continuously and jointly, strong moral, ethical and spiritual foundations for our national development, as the practical application of Pancasila." The President further believed that the Pope's visit would enhance the faith of religious followers which was also a manifestation of the practical application of Pancasila.

If in his first meeting with the President, Pope John Paul II had only been introduced

to Pancasila, in his itinerary to Yogyakarta, Maumere, East Timor and Medan, and after having met a number of officials and leaders of different religious groups, he himself witnessed and felt Pancasila as a reality in the religious life of Indonesians and as a tie uniting the multifarious Indonesian society.

As to the statements and remarks made by the visiting Pontiff, one has to bear in mind that they were expressed by the Pope not as head of state or politician, but as a religious leader and successor of St. Peter, the Apostle and first Primate of the Church. Accordingly the Pope's words were not uttered as sheer formalities but came out from his sincere heart and did not in the least smack of politics. Were there any motivation behind those statements, then it was related to his responsibility as a religious leader, namely religious freedom. It was indeed on account of his witnessing religious freedom that he made the remarks. For example, when he met with leaders of the Indonesian Muslims, Protestants, Catholics, Hindus and Buddhists at the Indonesia in Miniature Park he witnessed their tolerance against one another.

Of all the places visited by the Pope during his six-day itinerary, Tasi Tolu, East Timor had been especially spotlighted by the international media. Although East Timor has been Indonesia's 27th province since 1976, some countries being influenced by the Fretelin and Portuguese propaganda do not recognise its current status. Accordingly they feared that the Papal visit to this region would amount to the Vatican's recognition of East Timor's integration.

Since the integration of East Timor as the youngest province of the Republic of Indonesia, the development of that region has

made rapid headway. It is not limited to education, health, housing and other such fields alone, but it covers the religious sector as well, which involves spiritual life and the socio-religious sector. Increased guidance has been provided by the government in the religious life of East Timor. The Catholic churches which had suffered destruction during the conflict have been rehabilitated. During the ensuing years, new houses of worship were constructed to accommodate worshippers of the Catholic, Protestant, Muslim, Hindu, Buddhist and other faiths. A cathedral, the Imaculata Conceptio Church, in Dili had been built and inaugurated by President Soeharto in November 1988.

In 1985 there were 497,294 Catholics, 25,791 Protestants, 14,125 Muslims, 226 Hindus, 2,091 Buddhists and 62,853 followers of local beliefs. The following table illustrates the development of religious groups in the East Timor province:

Table

DEVELOPMENT RATIO OF RELIGIOUS GROUPS IN EAST TIMOR

No. Religious Groups	1974	1980	1982	1984
1. Catholics	220,312	446,444	447,390	497,294
2. Protestants	4,587	10,487	14,589	25,791
3. Muslims	637	3,677	14,087	14,125
4. Hindus	-	-	-	226
5. Buddhists	-	-	-	2,091
6. Local Beliefs	-	-	-	62,853
Total	225,536	460,608	476,066	602,380

Source: Report of Regional Department for Religious Affairs in East Timor Province.

As to the development of the Catholic community, before the integration the number of Catholics only totalled about 200,000 with an average increase of 100-200 believers a month in each parish. After the integration the number of Catholics amounted to 1,000-2,000 a month in each parish. To date the number of Catholic worshippers has doubled compared with that before the integration.

Although the East Timor diocese has not as yet become part of the hierarchy of the Indonesian Catholic Church (KWI = Indonesian Conference of Bishops), the Indonesian government fully supports the development of the Catholic Church in East Timor. The support is not confined to material goods but the community members enjoy complete freedom to observe their religious duties. To this end no restrictions are imposed on Catholic religious leaders to perform their respective functions in the regions.

Activities of the Catholic Church do not only consist of spiritual ceremonies but they also encompass humanitarian deeds. It is also within this framework that the Catholic Church in East Timor has been given the liberty to establish co-operative relations with international institutions such as ICRC and CRS, as well as with government functionaries in the effort to extend humanitarian aid to orphans, widows, the unemployed, poor students, etc.

This was the situation when Pope John Paul II paid a visit to East Timor. The Pope and foreign journalists coming to that region from various parts of the world to cover the papal visit were able to see for themselves the results of development and the real situation in East Timor.

As is well-known, the Pope usually kisses

the ground when visiting a new country. Hence when Pope John Paul set foot on East Timor the journalists did not fail to notice that the Pontiff did not kiss the ground upon arrival. The Pope's gesture might be due to the fact that his visit to this region was strictly pastoral in nature. The Pontiff came in his capacity as the Bishop of Rome visiting his flock of worshippers since the East Timor diocese is directly administered from the Vatican. The Vatican had ordained an East Timorese priest, Carlos Felipe Ximenes Belo, as Titular Bishop of Lorium. Being head of the Catholic Church in Dili, Bishop Belo is only a representative of the Vatican and is legally and formally not the Bishop of Dili diocese. Hence, he only administers the diocese on behalf of the Pope.

On the other hand, however, the Pope's gesture of not kissing the ground upon arrival at the airport of Dili may be interpreted as a recognition of Indonesia's sovereignty over East Timor since he had already kissed the ground at Halim Airport in Jakarta. And when he kisses a crucifix on reaching the site of the Papal Mass at Tasi Tolu, 10 kilometres east of Dili, it was a purely liturgical act. Be that as it may, the fact that Pope John Paul II has brushed aside the Portuguese President's repeated pleas to skip East Timor in his visits seems to indicate that the Pontiff favours East Timor's integration with Indonesia.

Moreover, some people expected that the Pope's remarks during his visit in this remote region would be either supportive or critical of its status as Indonesia's youngest Province. However, his homily at the Holy Mass in Tasi Tolu could not be interpreted as being supportive or critical of the region's position. In fact, the Pontiff's words in his homily at Tasi Tolu were encouraging and a

positive contribution to the East Timorese spiritual life. The Pope exhorted the estimated 200,000 believers using the Tetum dialect "to remain one soul and one heart" and to forget the bitter past. He delivered the sermon in English mixed with Tetum and Latin phrases accompanied by translation in Tetum. He also reminded the East Timorese of their religious responsibility to the state -- Indonesia -- to be "salt of the earth, the light of the world."

He said among other things, "Respect for rights which render life more humane must be further ensured -- the right of individuals and the rights of families. I pray that those who have responsibility for life in East Timor will act with wisdom and good will towards all -- in order to bring about a speedy improvement of conditions of life which will permit you to live in social harmony..."

These remarks are especially worth noting since they are applicable not only to the East Timorese but also to all the Indonesian people. They imply that every member of the Indonesian society in proportion to his/her respective power and position has a share of responsibility towards the life of other fellow human beings in order to create conditions which enable fellow Indonesians to lead a better life.

It is inopportune that during the Holy Mass after the Holy Communion a small incident occurred. A group of about 20 young East Timorese students of a Technology High School in Dili exuberantly surged forward carrying banners. They managed to unfurl two of the banners calling on the Pope to support their protest against East Timor's integration. However, they were soon put under control since they did not obtain any

support from the estimated 200,000 worshippers attending Mass there. Even the Pope himself, unaffected by the scene, continued the Holy Mass.

However, this small incident has been exaggerated by some of the foreign press. It cannot be denied that not all East Timorese agreed to the region's integration. Nevertheless, most of the East Timorese people opted for the region's integration as the 27th Province of Indonesia on November 30, 1975. And on 31 May 1976 the House of Representatives of East Timor issued a petition urging the government of Indonesia to accept and legalise the integration of the people and the territory of East Timor with the Unitary State of the Republic of Indonesia within the shortest possible time. Hence as of 17 July 1976 the territory of East Timor has been officially and legally an integral part of the Unitary State of the Republic of Indonesia, and all its affairs are entirely the responsibility and internal matter of the government and people of Indonesia.

Foreign journalists were invited during the Papal visit to East Timor to see and feel for themselves the development and real situation there. Therefore, it has to be regretted that the coverage of some foreign journalists has been out of proportion.

Although Pope John Paul II did not touch on the issue or encouraged the inclusion of the East Timor diocese in the Indonesian Conference of Bishops (KWI), his six-day visit to Indonesia was not only considered successful but had a special significance to the state and the religious life of the nation as a whole. The Pontiff was very pleased with the practical implementation of Pancasila, which he himself had witnessed during his six-day tour to several places in Indonesia. Without any prejudice the Pope

admired the tolerance and harmonious relations between different religious groups in a country where Pancasila is the state ideology and constitutes the sole frame of reference in societal life. Were there any allegations insinuating violations of human rights all the facts mentioned earlier are proof enough that the allegations are groundless.

Furthermore, that such an appreciation

should come from a Pope is indeed a surprise to the Indonesian people. Hence the Indonesian people should be thankful to be reminded of possessing the asset of values inherent in the principles of Pancasila which will lead the nation to a better future if appropriately implemented. And this appreciation is justifiable since it came out from the sincere heart of such a thoughtful and modest religious leader.

Economic Efficiency and Policy Incentives of Rice Production in Indonesia

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Introduction

RICE is the main staple food for Indonesians. Rice prices have a high weight in the consumer price index. Hence rice is very important in determining inflation rate. The role of rice in inflation determinant is also enhanced by its ability to affect other prices. Rice price is commonly considered as the price leader of other commodities, especially other food commodities and the rate of wages. Sometimes rice is also called wage good. Because of its important role as the main staple food and as inflationary determinant, rice prices at the consumer level are controlled by the government. The government usually conduct market operations to control the price level.

In addition to being the main food and as inflation determinant, rice is also important to the economy as a whole since a large portion of value added is generated by rice production activities. Indonesia's food crop sub-sector is dominated by rice. Hence rice

farming is very important for economic growth.

Rice farming is the most labour intensive farming in Indonesia. The high labour use and the large planted area make rice farming very important in creating employment especially in rural areas.

Because of its importance to the economy the government has concentrated its attention on rice farming. Government agricultural policies have been biased toward rice. The vast government supports have successfully increased rice production. Indonesia has been able to achieve self-sufficiency in rice in 1984. In the 1970s Indonesia was the largest rice importing country in the World. But during the last three years Indonesia has not imported rice anymore.

Rice farming is also important in providing fodder for livestock. Clearly, rice grain is too expensive for fodder. But rice stalk and rice bran, by products of rice after milling are used as feed ingredients. These two products do not have significant economic value for other uses.

In this study we will discuss the economic comparative advantage of rice farming in Indonesia. The analysis is made by dividing the country into seven regional producing areas. The policy incentives for rice farming in each region are also investigated. The analysis covers three different trade regimes: inter-regional trade (IR), import substitution (IS), and export promotion (EP) regimes. Production and consumption patterns are also reviewed in order to obtain a perspective on future problems of rice farming.

Methodology

Policy Incentives and Comparative Advantage Criteria

The incentives criteria used in this study are Nominal Protection Rate (NPR), Effective Protection Rate (EPR), Effective Subsidy Rate (ESR), and Implicit Tariff (IT). The economic efficiency (comparative advantage) criteria are Domestic Resource Cost (DRC), Domestic Resource Cost Ratio (DRCR), and Net Economic Benefit (NEB). Computation formulas of the criteria are presented below.

The Nominal Protection Rate (NPR) is the ratio of the difference between the domestic producer price and world (border) price of a commodity expressed in percentage.

$$NPR = \frac{Pd_o - Pb_o}{Pb_o} \times 100 \tag{1}$$

Pd_o = domestic price of output
 Pb_o = border price of output

The Implicit Tariff (IT) rate has the same formula as NPR except that prices are those of the inputs.

$$IT = \frac{Pd_i - Pb_i}{Pb_i} \times 100 \tag{2}$$

Pd_i = domestic price of input
 Pb_i = border price of input

A positive NPR indicates domestic price protection of the output which is an incentive to expand production. A positive IT, on the other hand, means an implicit taxation on inputs as production disincentive.

The net effect of both NPR and IT can be calculated using the formula for Effective Protection Rate (EPR).

$$EPR = \frac{\text{Value added (financial)}}{\text{Value added (economic)}} - 1 \times 100 \tag{3}$$

The EPR measures the degree to which protection causes actual value added to diverge from the value added that would have prevailed in the absence of protection. A positive EPR implies that production of a particular commodity receives net positive incentive, while a negative EPR indicates net disincentive.

The Domestic Resource Cost (DRC) can be formally stated as the ratio of the domestic costs of production and the difference between the border price of output and foreign (or tradable) costs.

$$DRC = \frac{\text{Domestic factor cost per unit of output}}{\left(\begin{array}{l} \text{border price - foreign costs per unit of} \\ \text{of output} \qquad \qquad \text{output in border prices} \end{array} \right)} \tag{4}$$

Comparative advantage is measured by the resource cost ratio (RCR), which is the DRC value divided by the shadow exchange rate of currency, that is:

$$RCR = \frac{DRC}{SER} \quad (5)$$

< 1, advantage

and if $RCR = 1$, neutral

>1, disadvantage

The relevant values of DRC and RCR are derived only when the border price of output is greater than the foreign costs of producing it. Otherwise, it is clear that the production system has no comparative advantage, since it cannot cover the foreign cost of producing it.

For a useful analysis the DRC and RCR comparative advantage indicators will be combined with profitability indicators. The profitability indicators include private profitability (Net Financial Profit = NFP) and social profitability (Net Economic Benefit = NEB). The NFP is computed in the usual way, that is, revenue minus cost per unit output. The NEB is computed as:

$$NEB_i = Pb_i - \sum_{j=1} a_{ij}P_{bj} - \sum_d a_{dj}v_{bj} \quad (6)$$

v_{bj} = Opportunity cost of non traded input (shadow price)

As an indicator of comparative advantage, the concept of NEB has a direct relationship with DRC. A production system has a comparative advantage whenever the NEB is positive.

The DRC approach will be employed using assumption of two basic trade regimes: *Import Substitution (IS)*, each activity is assumed to produce import substitution commodity, and *Export Promotion (EP)* assesses the viability of the country to export the commodities under study. In addition, sensitivity analysis will be employed by accommodating changes in border prices of the

output, prices of main inputs, and the level of output. The purpose is to analyse the degree of comparative advantage of the activity being studied in response to changes in those parameters.

Derivation of Accounting Prices

Traded Goods

Traded goods are those which are either directly imported or exported, or those domestically produced but expansion of domestic sale (purchase) results in the goods being exported (imported) by some person or firm.¹

Although a border price is not always the most appropriate accounting price to use, i.e., distorted by monopsonistic situations in other supplying countries, by trade barriers and pricing policies, and by dumping, it is generally accepted that they do appear to capture the real opportunities open to countries through trade and thus provide a convenient reference point. Therefore, traded goods are valued at border prices as long as the imports (exports) do not affect foreign supply prices (foreign demand prices). However, if an increase demand of imports affects the foreign supply price or if an increase in supply of exports affects the foreign demand price, i.e., when the supply or demand is less than perfectly elastic, then the appropriate border prices to use are the projected marginal import costs or the projected marginal export revenues.

¹I.M.D. Little and J.A. Mirrless, *Project Appraisal and Planning for Developing Countries* (New York: Basic Books, 1974); P.L. Scandizzo and C. Bruce, "Methodologies for Measuring Agricultural Price Intervention Effects," *World Bank Staff Working Paper*, No. 394 (1980).

Table 1

FINANCIAL AND ECONOMIC LAND RENTS
(Rp/Ha)

Crop	Financial		Economic	
	Java	Off-Java	Java	Off-Java
Rice	186,732	106,591	158,722	90,602
Corn	105,724	54,440	89,865	46,274
Soybean	132,726	71,823	112,817	61,050
Cassava	125,708	48,694	106,852	41,390

Source: Rosegrant, *Price and Investment* (see footnote no. 2).

The commodities being studied are assumed to have an effect on foreign supply/demand prices because of the small shares in the international market. Therefore, for an imported commodity the accounting price is the CIF price, representing the direct foreign exchange cost of the import. Conversely, for an exported commodity the price is the FOB price, representing the direct foreign exchange earnings of the export.

Non Traded Goods

All those goods which are not traded are then decomposed into tradable components and primary domestic factors. The tradable components are valued at border prices, and the primary domestic factor is valued at border opportunity costs. Accounting price of some primary domestic factors are discussed below.

Accounting price of land. There are two possible alternatives in valuing land. One might use the return to land in the best alternative crop (valued at accounting price) to

represent its marginal product. Or one might use the rental rate paid by tenant farmers. In this study, we use rental rate commonly paid in the study area, considering the absence of a robust data set to estimate the economic price of land. However, high government subsidy on inputs availed to the agricultural sector in Indonesia over the past 15 years has tended to be capitalised into financial land rents. Therefore we hypothesise that the financial price is higher than the economic land rent.

Land is a domestic resource. Clearly, the land rent is different by crops. The land rent values used for this study are presented in Table 1.

Handling and Transportation

Feed grains handling and transportation costs are adopted from Rosegrant.² The

²M.W. Rosegrant et al., *Price and Investment Policies in the Indonesia Food Sector* (Washington D.C.: International Food Policy Research Institute; Bogor: Center for Agro Economic Research, 1987).

Table 2

COMPOSITIONS OF TRANSPORT COST
(Per Cent)

Component	Foreign	Domestic	Tax	Total
Intermediate Input	69.1	25.7	5.2	41.7
Wage/Salary	-	97.5	2.5	18.0
Surplus	-	80.0	20.0	28.8
Depreciation	100	-	-	10.2
Tax	-	-	100	1.2
Total	39.0	51.3	9.7	100

Table 3

COMPOSITIONS OF HANDLING COST
(Per Cent)

Component	Foreign	Domestic	Tax	Total
Intermediate Input	69.8	32.8	-2.6	30.5
Wage/Salary	-	97.5	2.5	21.9
Surplus	-	80.0	20.0	40.6
Depreciation	100	-	-	6.0
Tax	-	-	100	0.9
Total	27.3	63.8	8.9	100

transportation cost is inflated with implicit transport price in the national income account. The handling costs for corn, cassava and soybean are inflated with the consumer price index in the respected region. The rice handling cost is inflated with non-electrical machinery price index.

Those handling and transportation costs comprise certain domestic components, foreign component and tax. The composi-

tions are obtained from the national input-output table. The composition of transport and handling costs is presented in Table 2 and 3.

Building and Construction

Building and construction are domestic goods. They, however, contain foreign and domestic components. There are no exact data on the proportion of each component.

Table 4

ECONOMIC PRICE OF UREA AND TSP AT THE FARM LEVEL, 1986
(Rp/Kg)

Component	Urea			TSP		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Border Price	141.76	-	141.76	217.46	-	217.46
Transport	3.39	3.77	7.16	3.39	3.77	7.16
Handling	7.61	17.79	25.40	7.61	17.79	25.40
Total	152.76	21.56	174.32	228.46	21.56	250.02

In this study we follow Yandini³ by assuming that the building and construction contain 80 per cent domestic component and 20 per cent foreign component.

Fertilisers

The major type of chemical fertilisers used in Indonesia are urea and TSP. The economic price is CIF price plus handling and transportation costs.

The CIF price, handling cost and transportation cost are adopted from Jandini.⁴ The economic prices of fertilisers are presented in Table 4.

The economic price of organic fertiliser is assumed to be equal to its financial price. It is a pure domestic resource.

³F. Yandini, *Keunggulan Komparatif dalam Produksi Kedelai dengan Analisa Sumberdaya Domestik (BSD) di Jawa Tengah* (Bogor, Institut Pertanian Bogor, Jurusan Ilmu-ilmu Sosial Ekonomi Pertanian, 1988).

⁴Yandini, *Keunggulan Komparatif*.

Pesticide

Pesticide is one of the heaviest subsidised agricultural inputs. According to the World Bank (1987) the social price of fertiliser is Rp. 4,500 per litre in 1986. The pesticides are composed in Indonesia, but with imported raw material. The foreign component of the pesticide was 35.06 per cent and the domestic was 64.94 per cent.

Irrigation

Perhaps irrigation water is the heaviest subsidised agricultural input. The subsidy varies by region, according to the availability of government irrigation facilities. According to Ali,⁵ irrigation subsidy varies from 93.3 per cent in Java to 77.5 per cent in South Sulawesi to 9.3 per cent in Aceh. For

⁵I. Ali, "Rice in Indonesia: Price Policy and Comparative Advantage," *Bulletin of Indonesian Economic Studies*, Vol. 23, No. 3 (1987), pp. 80-99.

this study, the subsidy rates are assumed to be 93.3 per cent for Java; 77.5 per cent for Sulawesi, and 9.3 per cent for other regions. The economic cost consists of 63.7 per cent foreign cost and 36.3 per cent domestic cost.⁶

Wage Rate

The later market in rural area is quite competitive especially during the crop season. The market adjusts to changes in demand due to the existence of interregional migration. The traditional institutional labour arrangements are abandoned in response to changing economic incentives and technology.⁷ The economic price of labour may therefore be assumed to equal its financial price. Labour is a pure domestic resource.

Interest Rate

Financial interest rate is assumed to be 12 per cent per year following Rosegrant, et.al., and Ali.⁸ The economic interest rate, on the other hand, is 18 per cent per year.

Exchange Rate

Shadow exchange rate is computed using the standard conversion factor method.

$$SCF = \frac{OER}{SER} = \frac{M + X}{(M + T_m) + (X - T_x)}$$

⁶Rosegrant et al., *Price and Investment Policies*.

⁷Ali, "Rice in Indonesia"; G.A. Hughes, "Shadow Prices for Indonesia," 1985. (Mimeographed.)

⁸Rosegrant, et al., *Prices and Investment Policies*; Ali, "Rice in Indonesia."

M	=	Value of import
X	=	Value of export
T _m	=	Taxes on import
T _x	=	Taxes on export
OER	=	Official exchange rate
SER	=	Shadow exchange rate

Based on the formula the conversion factor in 1986 was 0.98. Clearly, the official exchange rate was very close to the shadow exchange rate. Accordingly, we assume that the official exchange rate was equal to the shadow exchange rate in 1986. The exchange rate was Rp. 1,644/US\$.

Production

Rice production, planted area and yield in 1969 to 1985 are presented in Table 5. Just like the other food crops, most of the rice in Indonesia is produced in Java. Its average annual contribution in total production has been steadily around 61 per cent. This high contribution has been due to both larger harvested area and higher yield. The harvested area in Java has been steadily around 53 per cent of the total harvested area. The yield in Java has almost been 50 per cent higher than that of outside Java. The yield in Java was 4.57 tonne/ha in 1985, whereas outside Java it was 3.22 tonne/ha. Tonne/Ha.

The harvested area has been increasing continuously. The harvested area even increases with an increasing rate. The high increase in the harvested area is possibly due in part to the increase in cropping intensity. This is supported by the development of short-age high yielding varieties and massive irrigation development programmes. The growth rates of harvested area, yield and production are presented in Table 6. From

Table 5

AREA, YIELD, AND PRODUCTION OF RICE IN INDONESIA, 1969-1987

Year	Area			Yield			Production		
	Java	Off-Java	Indonesia	Java	Off-Java	Indonesia	Java	Off-Java	Indonesia
	'000 Ha	Mt/Ha	'000 Mt
1969	4,278	3,735	8,014	2.57	1.88	2.25	11,003	7,010	18,013
1970	4,288	3,847	8,135	2.70	2.01	2.38	11,580	7,744	19,324
1971	4,402	3,922	8,324	2.81	1.99	2.42	12,389	7,793	20,182
1972	4,318	3,580	7,898	2.76	2.09	2.45	11,896	7,490	19,386
1973	4,557	3,847	8,404	2.86	2.20	2.56	13,016	8,465	21,481
1974	4,719	3,790	8,509	2.94	2.27	2.64	13,853	8,611	22,464
1975	4,644	3,851	8,495	2.95	2.24	2.63	13,701	8,630	22,331
1976	4,452	3,916	8,369	3.15	2.37	2.78	14,031	9,270	23,301
1977	4,360	4,000	8,360	3.00	2.57	2.79	13,080	10,267	23,347
1978	4,731	4,198	8,929	3.29	2.43	2.89	15,551	10,221	25,772
1979	4,610	4,194	8,804	3.40	2.53	2.99	15,655	10,627	26,283
1980	4,756	4,249	9,005	3.86	2.66	3.29	18,358	11,294	29,652
1981	5,029	4,352	9,382	4.07	2.83	3.49	20,478	12,296	32,774
1982	4,735	4,253	8,988	4.39	3.00	3.74	20,806	12,778	33,584
1983	4,770	4,393	9,162	4.53	3.12	3.85	21,595	13,707	35,303
1984	5,202	4,562	9,764	4.55	3.17	3.91	23,666	14,471	38,136
1985	5,301	4,601	9,902	4.57	3.22	3.94	24,225	14,808	39,033
1986	5,331	4,658	9,988	4.59	3.28	3.98	24,458	15,268	39,727
1987	5,185	4,737	9,922	4.73	3.28	4.04	24,543	15,535	40,078

Source: Central Bureau of Statistics.

Table 6

GROWTH RATES IN REGIONAL AREA, YIELD, AND PRODUCTION OF RICE, INDONESIA, 1969-1985¹
(Per Cent)

Region	Area			Yield			Production		
	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85
East Java	1.47	2.14	1.77	2.10	5.05	4.04	3.60	7.30	5.87
Central Java	0.00	1.76	0.86	1.49	7.17	4.13	1.49	9.06	5.02
West Java	0.54	1.79	0.80	2.47	5.38	3.84	3.02	7.27	4.67
N. Sumatera	-0.70	1.63	0.69	0.65	3.45	1.48	-0.06	5.14	2.18
OT. Sumatera	0.01	2.70	1.43	3.99	3.63	3.54	4.00	6.43	5.02
S. Sulawesi	0.30	1.14	1.87	3.24	5.20	4.14	3.55	6.39	6.08
OT. Sulawesi	1.68	0.67	1.27	3.42	5.95	3.54	5.16	6.66	4.86
OT. Indonesia	1.83	0.11	1.28	5.11	3.09	4.14	7.03	4.20	5.47
Total Indonesia	0.62	1.67	1.20	2.67	5.04	3.77	3.30	6.80	5.02

¹OT. Sumatera is "other Sumatera," excluding N. Sumatera; OT. Sulawesi is "other Sulawesi," excluding S. Sulawesi; OT. Indonesia is "other Indonesia," excluding Java, Sumatera, and Sulawesi.

Source: Basic data are from the Central Bureau of Statistics.

Table 7

GROWTH RATE OF AREA UNDER RICE INTENSIFICATION PROGRAMMES,
PER CENT OF TOTAL RICE AREA UNDER INTENSIFICATION
AND REGIONAL DISTRIBUTION OF RICE AREA UNDER INTENSIFICATION, INDONESIA 1969-85¹
(Per Cent)

Region	Growth Rates of Intensification Area			Per Cent of Rice Area under Intensification			Regional Distribution of Rice Area under Intensification		
	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85
East Java	8.84	4.82	6.56	59.36	76.85	92.89	25.07	23.37	20.75
Central Java	8.27	4.43	6.03	53.45	72.17	87.16	25.68	22.79	19.80
West Java	8.80	5.27	7.25	44.96	68.68	88.59	27.25	27.81	25.14
N. Sumatera	9.05	11.29	11.53	23.93	37.94	66.10	4.35	4.40	5.53
OT. Sumatera	11.40	12.56	11.22	17.34	28.10	46.73	8.24	9.11	11.42
S. Sulawesi	15.19	16.46	17.40	21.07	30.76	69.89	3.42	3.84	6.10
OT. Sulawesi	46.39	9.06	21.24	5.54	22.92	32.44	0.36	1.09	1.05
OT. Indonesia	20.63	12.11	15.99	13.87	25.70	50.80	5.63	7.59	10.21
Total Indonesia	9.51	7.30	8.24	35.72	51.74	72.31	100.00	100.00	100.00

¹OT. Sumatera is "other Sumatera," excluding N. Sumatera; OT. Sulawesi is "other Sulawesi," excluding S. Sulawesi; OT. Indonesia is "other Indonesia," excluding Java, Sumatera, and Sulawesi.

Source: Basic data are from the Central Bureau of Statistics.

the table we can see that the area, yield, and total production have been increasing with increasing rates. The harvested areas grew at 0.62 per cent per year during the period of 1969-1977 and 1.67 per cent per year during the period of 1977-1985. The yield increased at 2.67 per cent per year during the period of 1969-1977 and 5.04 per cent per year during the period of 1977-1985. Consequently, rice production also increases with an increasing rate. Production increased at 3.30 per cent per year in 1969-1977 and 6.80 per cent per year in 1977-1985. This very high production growth has enabled Indonesia to achieve rice self-sufficiency since 1984.

The regional distributions of rice intensification programmes are presented in Table

7. As we can see, more than 87 per cent of the harvested area in Java was under the intensification programme in 1981-1985. In the other regions, the harvested area was lower than 50 per cent, except in North Sumatera and South Sulawesi. This indicates that the government rice intensification programme has been concentrated in Java. Only in recent years the intensification programme shifted to outside Java. This has sharply increased the intensive harvested area outside Java.

In addition to intensification programme, irrigation development has also been concentrated in Java. More than 93 per cent of the harvested area in Java in 1981-1985 was in irrigated land. Outside Java, the irri-

Table 8

GROWTH RATE OF RICE AREA IRRIGATED, PERCENTAGE OF RICE AREA IRRIGATED,
AND REGIONAL DISTRIBUTION OF AREA IRRIGATED, INDONESIA, 1969-1985¹
(Per Cent)

Region	Growth Rates of Irrigated Land Area			Per Cent of Rice Area Irrigated			Regional Distribution of Rice Area Irrigated		
	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85
East Java	1.71	2.00	1.84	94.33	95.54	94.98	17.05	17.37	17.52
Central Java	0.09	1.66	0.93	93.51	94.40	94.20	19.23	17.83	17.67
West Java	1.37	1.64	1.08	90.42	93.88	93.28	23.46	22.73	21.86
N. Sumatera	0.48	2.83	1.64	75.58	78.81	83.62	5.88	5.46	5.78
OT. Sumatera	2.26	3.32	2.70	68.68	76.20	78.81	13.97	14.78	15.90
S. Sulawesi	1.16	1.37	2.22	92.34	95.38	96.07	6.42	7.12	6.93
OT. Sulawesi	2.48	2.07	2.12	61.42	62.56	67.20	1.72	1.78	1.79
OT. Indonesia	2.62	0.80	1.88	70.56	73.26	75.51	12.26	12.94	12.54
Total Indonesia	1.43	1.92	1.65	83.44	86.53	87.55	100.00	100.00	100.00

¹OT. Sumatera is "other Sumatera," excluding N. Sumatera; OT. Sulawesi is "other Sulawesi," excluding S. Sulawesi; OT. Indonesia is "other Indonesia," excluding Java, Sumatera, and Sulawesi.

Source: Basic data are from the Central Bureau of Statistics.

Table 9

FIVE-YEAR AVERAGE YIELDS OF PADDY IN IRRIGATED/WET LAND AREAS
AND UNIRRIGATED/DRY LAND AREAS, INDONESIA, 1969-1983

Year	Irrigated/Wet Land	Unirrigated/Dry Land	Difference
1969-73	2.67	1.16	1.51 (130%)
1974-78	2.99	1.28	1.71 (134%)
1971-81 ^a	3.53	1.43	2.10 (147%)

^aData for 1982/83 not currently available.

Source: IBRD, Indonesia: Policy Options and Strategies for Major Food Crops, Report No. 36866-IND. Basic data from Central Bureau of Statistics.

Table 10

GROWTH RATE OF AREA HARVESTED OF MODERN VARIETIES, PERCENTAGE OF TOTAL RICE AREA IN MODERN VARIETIES, REGIONAL DISTRIBUTION OF MODERN VARIETIES, INDONESIA, 1969-85¹

(Per Cent)

Region	Growth Rates of Area in Modern Varieties			Per Cent of Rice Area in Modern Varieties			Regional Distribution of Modern Varieties		
	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85
East Java	30.20	3.88	13.04	42.16	86.98	99.28	34.29	27.94	21.86
Central Java	31.63	5.62	14.40	31.94	75.57	95.33	29.56	25.22	21.34
West Java	33.82	7.90	16.94	22.98	60.45	88.80	26.83	25.85	24.84
N. Sumatera	56.48	14.79	31.01	5.23	30.26	60.48	1.83	3.70	4.98
OT. Sumatera	64.83	18.52	35.31	3.24	19.31	44.27	2.97	6.26	10.66
S. Sulawesi	71.19	18.97	37.23	5.07	28.07	74.71	1.59	3.70	6.43
OT. Sulawesi	65.31	11.30	29.47	5.03	21.46	38.90	0.63	1.08	1.24
OT. Indonesia	90.39	16.47	40.75	2.96	18.89	43.63	2.31	5.89	8.65
Total Indonesia	34.86	8.73	17.77	18.55	48.98	73.36	100.00	100.00	100.00

¹OT. Sumatera is "other Sumatera," excluding N. Sumatera; OT. Sulawesi is "other Sulawesi," excluding S. Sulawesi; OT. Indonesia is "other Indonesia," excluding Java, Sumatera, and Sulawesi.

Source: Basic data are from the Central Bureau of Statistics.

gated harvested area ranged from 67 to 96 per cent in the 1981-1985 period (Table 8).

Irrigation is one of the main factors of increasing productivity. Irrigation could increase productivity with more than 130 per cent (Table 9). The productivity in unirrigated land during the period of 1979-1981 was only 1.43 tonne/ha, whereas in irrigated land the yield could be increased to 3.53 tonnes/ha. This gives a productivity differential of 2.10 tonnes/ha or an increase of 147 per cent. The productivity differential in 1969-1973 was 1.53 kg/ha or 130 per cent. The increasing productivity differential shows that irrigation has a positive interaction with other inputs in increasing productivity.

Another contributing factor to increased productivity is seed quality. Evidence shows that almost all the farmers in Java have used modern rice varieties. The percentage area under the modern varieties were 99 and 95 per cent for East Java and Central Java respectively (Table 10). Outside Java the highest users of high yielding varieties are in South Sulawesi and North Sumatera with proportions of 75 and 60 per cent respectively. In other areas, most of the farmers still use traditional varieties. The portion of the farmers who use modern varieties range from 39 to 44 per cent.

Based on the above findings we may conclude that the potential to increase rice production in Indonesia is very great. This can

be done by developing irrigation facilities and extending intensification programmes outside Java. With these efforts a much higher yield can be obtained outside Java. As we can see from Table 11 the yields outside Java were still very low. The productivity differential between Java and outside Java was still very large.

Consumption

As mentioned before, rice is the main staple food in Indonesia. The trends of the consumption per capita are presented in Table 12. The table shows that rice consumption per capita has been quite stable around 2.1 kg/week. The average consumption per capita in 1976, 1980, 1984 and 1987 were

2,067, 2,125, 2,049 and 2,064 kg/week respectively.

Rice consumption per capita in rural areas has been quite stable at 2.1 kg/week. In urban areas, however, rice consumption per capita decreases over time. In 1976 rice consumption per capita in urban areas was 2,137 kg/week, which decreased to 2,053 kg/week in 1980 and 1,968 kg/week in 1984. Rice consumption per capita in urban areas has been lower than in rural areas since 1980. The increasing trend of rice consumption in urban areas may be due to food diversification and out of home consumption.

Rice consumption per capita increases first up to a certain level and then decreases as income increases. This is shown by the data in Table 13. As we can see from the

Table 11

AVERAGE AREA, YIELD, AND PRODUCTION OF RICE, INDONESIA, 1969-85¹
(Per Cent)

Region	Area			Yield			Production		
	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85	1969-74	1975-80	1981-85
East Java	1,239.0	1,362.6	1,522.6	2.98	3.58	4.77	3,689.5	4,876.3	7,259.6
Central Java	1,409.7	1,415.3	1,548.1	2.77	3.18	4.45	3,903.5	4,503.9	6,890.8
West Java	1,778.2	1,814.2	1,934.4	2.64	3.13	4.15	4,696.5	5,682.6	8,022.1
N. Sumatera	533.1	519.2	570.0	2.79	2.83	3.32	1,489.5	1,469.5	1,893.8
OT. Sumatera	1,394.1	1,453.2	1,665.2	2.05	2.52	3.07	2,859.9	3,665.6	5,119.2
S. Sulawesi	476.8	559.4	594.9	2.33	2.79	3.76	1,109.2	1,562.0	2,236.6
OT. Sulawesi	192.1	212.6	220.1	1.80	2.03	2.70	346.6	430.7	593.4
OT. Indonesia	1,190.8	1,232.6	1,370.5	1.72	2.21	2.74	2,047.1	2,923.5	3,748.9
Total Indonesia	8,213.8	8,660.2	9,425.7	2.45	2.90	3.79	20,141.8	25,114.1	35,764.4

¹OT. Sumatera is "other Sumatera," excluding N. Sumatera; OT. Sulawesi is "other Sulawesi," excluding S. Sulawesi; OT. Indonesia is "other Indonesia," excluding Java, Sumatera, and Sulawesi.

Source: Basic data are from the Central Bureau of Statistics.

Table 12

CONSUMPTION PER CAPITA OF RICE IN INDONESIA
(Kg/Person/Week)

Year	Rural	Urban	Indonesia
1976	2,051	2,137	2,067
1980	2,145	2,053	2,125
1984	2,075	1,968	2,049
1987	2,2281	2,111	2,264

Source: Central Bureau of Statistics.

Table 13

CONSUMPTION PER CAPITA OF RICE BY INCOME GROUP, 1984

Income Group	Imported Rice	High Yielding Variety	Local Rice	Glutinous Rice	Rice Product	Total
< 5,000	0,005	0,482	0,184	0,000	0,003	0,674
5,000- 5,999	0,011	0,779	0,279	0,003	0,003	1,075
6,000- 7,999	0,031	1,101	0,405	0,004	0,001	1,542
8,000- 9,999	0,065	1,243	0,562	0,007	0,002	1,879
10,000-14,999	0,118	1,314	0,740	0,014	0,002	2,188
15,000-19,999	0,220	1,253	0,873	0,023	0,002	2,371
20,000-29,999	0,302	1,150	0,906	0,030	0,003	2,391
30,000-39,999	0,362	0,961	1,001	0,039	0,005	2,368
40,000-49,999	0,388	0,860	1,030	0,034	0,002	2,314
60,000-79,999	0,363	0,819	0,984	0,033	0,003	2,202
80,000-and over	0,268	0,688	1,162	0,028	0,005	2,151

Source: Central Bureau of Statistics.

table, rice consumption per capita increased up to 2,391 kg/week as income increased to (Rp 20,000-Rp 29,999) per month in 1984. The consumption per capita for the lowest income group was only 0,674 kg/week. For the highest income group the consumption per capita was 2,151 kg/week.

In terms of its type, we can see that the rice consumption composition changes with

income. The consumption changes toward better quality as income increases. Local and imported rice is of better quality than the high yielding varieties. For the lower income group (up to Rp 20,000-Rp 29,999 per month), most of the rice consumption relates to high yielding variety. But for the higher income group, local rice consumption is dominant. The local and imported rice consumption increases continuously as income increases.

From this discussion we can conclude that the total rice consumption in Indonesia will still increase in the future. The increase is mainly due to the increase in population which is still very high (about 2 per cent per year). Consumption per capita will not change significantly. The increase in real income will more likely increase the quality of rice consumed.

Farming Analysis

Rice can be grown anywhere in the country. All regions in the country are rice producers. Accordingly, producing regions in this study will be divided according to the main island or provinces. This is also consistent with data availability. Specifically, the producing regions are West Java, Central Java, East Java, Sumatera, Kalimantan, Bali & Nusa Tenggara and Sulawesi. The farming input and output data are obtained from the Central Bureau of Statistics. The rice farming indicators are summarised in Table 14. From this we can see that the highest yield was in Java. The yields in East

Java, Central Java, and West Java were 4,982, 4,794 and 4,536 kg/ha respectively. The next highest yields were in Bali - Nusa Tenggara and Sulawesi. The very high yield in Java is partly due to the high intensive farming. As we can see from the table the cost per hectare in Java was also the highest in the country.

Although Java had the highest yield, the most profitable rice farming was outside Java. The profitability of rice farming outside Java was more than 100 per cent, whereas in Java it ranged from 18 to 64 per cent. East Java, which had the highest yield, generated the smallest profit. This indicates that rice farming in Java, despite its higher yields, constituted high input farming, whereas outside Java it was still low input farming.

In terms of economic cost efficiency it is clear that the most efficient rice farming in Indonesia was outside Java. Table 14 shows that the average financial costs in Java ranged from Rp 90/kg to Rp 131/kg. Outside Java, on the other hand, the average financial costs ranged from Rp 49/kg to Rp 90/kg. Economic costs outside Java were also lower

Table 14

SOME IMPORTANT INDICATORS OF RICE FARMING IN INDONESIA, 1986

Region	Yield (Kg/Ha)	Financial Cost (Rp/Ha)	Profit (Rp/Ha)	Profita- bility (%)	Average Cost (Rp/Kg)	Economic Cost (Rp/Kg)
West Java	4,536	476,821	219,555	46.05	105.12	115.86
Central Java	4,794	431,336	276,203	64.03	89.97	98.98
East Java	4,982	652,321	117,053	17.94	130.94	118.40
Sumatera	3,855	187,050	534,061	285.52	48.52	78.53
Kalimantan	2,981	193,700	364,596	188.23	64.98	64.10
Bali & N. Tenggara	4,249	276,896	334,287	120.73	65.17	64.85
Sulawesi	4,165	243,730	376,827	154.61	90.04	93.86

than in Java. The average economic costs in Java ranged from Rp 99/kg to Rp 118/kg, and outside Java they ranged from Rp 64/kg to Rp 94/kg.

From the above findings we can conclude that the highest rice production per hectare in Indonesia was in Java. But in terms of economic efficiency, the most efficient ones were outside Java. The most profitable rice farmings were also outside Java. The low productivity outside Java was due to low input use. The government has promoted rice

production in Java through farm intensification and irrigation development.

Economic Efficiency

The economic efficiency criteria used in this study are Domestic Resource Cost Ratio, Domestic Resource Cost and Net Economic Benefit. The computed criteria are in Table 15. From the table we can see that rice production is economically feasible in all regions and in all trade regimes. The domes-

Table 15

COMPARATIVE ADVANTAGE INDICATORS OF RICE PRODUCTION BY REGIONS AND TRADE REGIMES, 1986

Region	Trade Regimes	Resource Cost Ratio	Domestic Resource Cost	Net Economic Benefit
West Java	IR	0.49624	815.82	153.47
	IS	0.46147	758.66	166.06
	EP	0.56951	936.27	127.64
Central Java	IR	0.49624	815.82	153.47
	IS	0.40397	664.13	182.54
	EP	0.48476	796.95	154.54
East Java	IR	0.49230	809.34	143.66
	IS	0.45158	742.40	158.57
	EP	0.53685	882.58	131.35
Sumatera	IR	0.35004	575.47	197.16
	IS	0.30841	507.03	219.94
	EP	0.39195	644.37	187.48
Sulawesi	IR	0.28487	468.33	215.26
	IS	0.25626	421.29	230.79
	EP	0.29990	493.04	213.98
Kalimantan	IS	0.27867	458.13	228.64
	EP	0.36081	593.17	199.67
Bali & N. Tenggara	IS	0.29957	492.49	221.42
	EP	0.38218	628.30	192.47

tic resource cost ratios range from 0.25626 to 0.56951. The economic benefits that may generate from rice production range from Rp 73.01/kg to Rp 230.39/kg. These indicate that rice farming should be promoted in Indonesia. Rice production should not only be geared to domestic consumption. This study shows that rice production is also beneficial for export. Indonesia has a comparative advantage in producing rice. However, to really develop the export potential, the rice quality should be improved.

In terms of trade regimes, one will notice that the most beneficial rice production orientation is for domestic use (interregional trade), followed by import substitution. Accordingly, the policy for primarily using domestic rice production is consistent with efficient resource allocation.

The most efficient rice producing regions were Sulawesi, Kalimantan, followed by Bali, Nusa Tenggara and Sumatera. As mentioned before, rice production outside Java was more efficient than in Java. Accordingly, rice production in Indonesia should be promoted especially outside Java. So far, most government aids and facilities have been concentrated in Java.

The previous analysis also shows that increasing planted area and yield were possible outside Java. Most of the rice farmings in Java have been very intensive, using modern varieties, intensive use of chemical inputs, and enjoy technical irrigation. That is why the yields in Java were higher than outside Java. Outside Java, on the other hand, a large area of the rice farmings still used traditional varieties and without irrigation, and used lower chemical inputs. That is why the yields outside Java were low. Developing irrigation facilities and intensive extension should be able to increase the yield. This is

also efficient in resource use.

The need to promote rice production outside Java is very important to maintain rice self-sufficiency achieved in 1984. At present, the government still concentrates its efforts in Java by launching the so-called "Special Intensification" programme (INSUS). Perhaps this kind of policy may only solve short-run problems. A more plausible policy to increase rice production may be pursued by promoting intensification and developing irrigation outside Java.

Economic Incentives

One of the common indicators for economic incentives is nominal protection. The nominal protection rates for rice in each region are presented in Table 16. The table shows that in some areas, such as Sulawesi, East Java, Sumatera, Bali, Nusa Tenggara, and Central Java the nominal protection rate is very small, only 0.75 per cent. Clearly, there are two regions which enjoy protection, namely, West Java and Kalimantan.

The other incentive criteria computed in this study are effective protection and implicit tariff. The two criteria are summarised in Table 17. The table shows that the effective protection rates are always positive under the interregional trade regime. The implicit tariffs are negative in all regions, which indicates the existence of input subsidies. It also indicates the existence of positive economic incentives under the interregional trade regime.

Under the import substitution regime, the effective protection rates are positive in West Java, Central Java and Kalimantan, whereas in other regions they are all negative. The highest effective protection rate is

in Kalimantan, at 28.08 per cent. The absolute value of the effective protection rates in other regions is quite small, less than ten per cent.

The effective protection rates under the export promotion regime are positive in all regions. But the level of the protection is very small. As we can see, the effective protection rates range from 0.63 to 2.36 per cent. We may say that there is no significant

protection under the export promotion regime.

The implicit tariffs are negative in all regions and all trade regimes. This is due to the existence of large input subsidies on rice farming. The highest input subsidies are under the interregional trade regimes. The absolute implicit tariff rates range from 40 to 47 per cent. Implicit tariff differentials be-

Table 16

NOMINAL PROTECTION ON RICE, 1986

Region	Wholesale (Rp/Kg)	Import Parity (Rp/Kg)	NPR (%)
West Java	356.23	344.57	33.84
Central Java	343.10	340.56	0.75
East Java	308.35	340.56	-9.46
Sumatera	311.56	342.46	-9.02
Sulawesi	284.13	345.89	-17.86
Kalimantan	421.57	342.78	22.99
Bali & Nusa Tenggara	322.08	342.78	-6.04

Table 17

SUMMARY OF ECONOMIC INCENTIVE INDICATORS ON RICE, 1986

Region	Effective Protection (%)			Implicit Tariff (%)		
	IR	IS	EP	IR	IS	EP
West Java	6.26	6.26	2.14	-39.54	-39.54	-20.35
Central Java	-	3.99	2.08	-	-41.72	-20.67
East Java	5.31	-6.60	2.36	-44.44	-42.93	-21.66
Sumatera	24.66	-7.05	1.89	-44.82	-38.76	-19.72
Sulawesi	3.48	-14.55	2.06	-46.54	-44.23	-16.18
Kalimantan	-	28.08	0.63	-	-41.54	-6.88
Bali & Nusa Tenggara	-	-3.14	0.77	-	-43.00	-8.65

IR = International Trade; IS = Import Substitution; EP = Export Promotion.

tween regions are not large. Absolute implicit tariffs under the import substitution regime are also high. They are somewhat lower than under the interregional trade regime. The absolute value of the implicit tariff rates are much lower than under the interregional or implicit trade regimes. This indicates that the government incentives are mainly channelled through inputs. The protection is biased toward domestic use of the rice production. This policy orientation is consistent with efficient resource use. As shown earlier, the most efficient resource cost allocations are under the interregional

trade regime followed by the import substitution regime.

Sensitivity Analysis

From the various analyses it is clear that rice production is economically feasible in all producing regions under all trade regimes. However, the economic feasibility is based on domestic resource cost analysis. The analysis, however, is sensitive to international price changes. Therefore, for a more meaningful analysis we should evaluate the

Table 18

DOMESTIC RESOURCE COST RATIO OF RICE AT VARIOUS INTERNATIONAL PRICE LEVELS

Producing Region	Trade Regime	Border Prices (Rp/Kg)				
		94.61	146.19	197.76	261.58	325.40
West Java	IR	2.0468	1.2052	0.8541	0.6277	0.4962
	IS	1.8345	1.1018	0.7874	0.5819	0.4615
	EP	2.5698	1.4397	1.0000	0.7257	0.5695
Central Java	IR	2.0468	1.2052	0.8541	0.6277	0.4962
	IS	1.6393	0.9738	0.6926	0.5103	0.4040
	EP	2.11027	1.2043	0.8439	0.6158	0.4848
East Java	IR	2.6701	1.3427	0.8969	0.6357	0.4923
	IS	2.2377	1.1878	0.8085	0.5795	0.4516
	EP	2.8830	1.4585	0.9762	0.6927	0.5368
Sumatera	IR	1.4635	0.8554	0.6043	0.4433	0.3500
	IS	1.1244	0.7066	0.5152	0.3858	0.3084
	EP	1.5586	0.9360	0.6688	0.4943	0.3920
Sulawesi	IR	1.2212	0.7040	0.4946	0.3615	0.2849
	IS	1.0000	0.6066	0.4353	0.3226	0.2563
	EP	1.2246	0.7250	0.5149	0.3790	0.2999
Kalimantan	IS	1.0249	0.6412	0.4665	0.3489	0.2787
	EP	1.3814	0.8464	0.6101	0.4535	0.3608
Bali & Nusa Tenggara	IS	1.1098	0.6917	0.5024	0.3753	0.2996
	EP	1.4746	0.8998	0.6475	0.4806	0.3822

sensitivity of the domestic resource cost ratio to the price changes. The computation is presented in Table 18. Since rice production is economically feasible in the base period price (in 1986), the sensitivity will be evaluated with regard to international price falling.

From Table 18 one can see that the rice production starts economically at the price level Rp 197.76/kg, that is for West Java

under the export promotion trade regime. The price level in 1986 was Rp 325.40/kg. This means that even though the international rice price falls by 39 per cent, rice production will always be feasible in all producing regions under all trade regimes. The 39 per cent price falling tolerance range is really quite high. It is also interesting to see that rice production outside Java are still economical under all trade regimes even if the price falls further to Rp 146.19/kg, or equi-

Table 19

RICE BREAK EVEN BORDER PRICE (RCR = 1) BY PRODUCING REGION AND TRADE REGIMES

Producing Regions	Trade Regime	Location of Wholesale/Port	DRCR	Price for DRCR = 1 (Rp/Kg)	Change of Prices ¹ (%)
West Java	IR	Jakarta	0.49624	171.93	-47.16
	IS	Bandung	0.46147	159.34	-51.03
	EP	Jakarta	0.56951	197.76	-39.23
Central Java	IR	Jakarta	0.49624	171.93	-47.16
	IS	Semarang	0.40397	142.86	-56.10
	EP	Semarang	0.48476	170.86	-47.49
East Java	IR	Jakarta	0.49230	181.74	-44.15
	IS	Surabaya	0.45158	166.83	-48.73
	EP	Surabaya	0.53685	194.05	-40.37
Sumatera	IR	Sumatera	0.35004	128.24	-60.59
	IS	Padang	0.30841	105.46	-67.59
	EP	Medan	0.39195	137.92	-57.62
Sulawesi	IR	Sulawesi	0.28487	110.14	-66.15
	IS	Ujung Pandang	0.25626	94.61	-70.93
	EP	Ujung Pandang	0.29990	111.42	-65.76
Kalimantan	IR	Kalimantan	0.27867	96.76	-70.26
	IS	Kalimantan	0.36081	125.73	-61.36
Bali & Nusa Tenggara	IS	Bali & Nusa Tenggara	0.29957	103.98	-68.05
	EP	Bali & Nusa Tenggara	0.38218	132.93	-59.15

¹The base year economic price of rice is Rp. 325.40,-/kg.

valent to a 55 per cent falling from the 1986 price level. As the price level falls again to Rp 94.61 the only viable price producing region economically is Sulawesi. The international rice prices to make a rice production break even ($\text{DRCR} = 1$) are presented in Table 19.

From the above analysis we can conclude that rice production in Indonesia is quite efficient in resource use. It can sustain a large drop in international price level. The most efficient producing regions are outside Java. This finding confirms the previous recommendation for restructuring rice production regionally. Future rice production development should be further emphasised outside Java.

As already mentioned, rice is the major agricultural commodity in Indonesia. The government has concentrated most of its efforts to promote rice production. This present study clearly justifies the government decision. Rice farming is quite efficient in resource use. It can sustain a large falling of international price.

Conclusion

Indonesia is quite efficient in rice production in all regions and all trade regimes. The domestic resource cost ratios under the interregional trade regime range from 0.28487 to 0.49624. Under the import substitution trade regime, the domestic resource cost ratios range from 0.27867 to 0.49624, whereas under the export promotion regime the domestic resource cost ratios range from 0.29990 to 0.56951. The most efficient trade regime is import substitution followed by interregional trade. Hence, the government's policy on rice-sufficiency is consistent with the economic efficiency criterion.

In terms of resource efficiency, rice production outside Java is more efficient than in Java. But right now, most of the rice is produced in Java. The rice intensification programmes are also concentrated in Java. Therefore, government attention should be redirected towards the promotion of rice production outside Java. This policy re-orientation is not only important for economic efficiency but also for increasing total production employment generation and for improving income distribution. Outside Java is more potential for increasing rice production in the future either through acreage expansion or yield enhancement. Rice land in Java is very scarce and has been used intensively and the yield gap is still very high.

The rice comparative advantage can sustain a large drop in international price. This means that rice will still be efficient economically even though the international price falls by 55 per cent. In other words, rice has a long-run sustainable comparative advantage.

The effective protection rates on rice are generally very low, especially under the export promotion trade regime. Under the import substitution trade regime, the effective protection rates are even negative in most of the producing regions. This indicates the existence of net disincentives on rice production.

Rice producers, however, enjoy high input subsidies from the government. This is shown by the negative implicit tariff. The implicit tariff under the interregional trade regime ranges from -40 to -47 per cent, under import substitution trade regime from -39 to -44 per cent, whereas under the export promotion trade regime from -7 to -22 per cent.

Recent Changes in Indonesia's Policy on Foreign Direct Investment

Djisman S. SIMANDJUNTAK

THE WEAKENING oil market and other changes in international environment such as the currency realignment have made it necessary for Indonesia to engage in economic reforms. The objectives of these reforms are manifold. Two of them are directly related to foreign direct investment (FDI). The decline in government saving necessitates an increase in private investment, if a certain level of investment is to be secured given the need for a high economic growth. Secondly, the decline in oil export and net resource transfer from official external borrowing makes an increase in FDI increasingly important. Such an increase can, indeed, help to improve market access abroad.

The growing need for FDI will be discussed in the first part of this paper. Indonesia's record in attracting FDI in the first half of the 1980s is, by and large, discouraging compared to what is needed by the economy.

At least part of this relatively weak performance is due to the restrictive elements of Indonesia's policy on FDI. The logical step would, therefore, be a reform as will be discussed in the second section. So far, the reform has touched upon an extensive range of issues. The preliminary result is also encouraging as discussed in section three. Some important issues remain pending, however. They will be dealt with briefly in the concluding section.

The Growing Need for FDI

The remnants of Soekarno's policies of "go to hell with your aid" have continued to overshadow the making of Indonesia's policy on foreign capital, however weak and scattered they are today. Foreign capital is seen with some mistrust that may intensify under certain circumstances. Its presence is said to be temporary in nature, that is, as long as domestic saving is inadequate to finance investment. Unlike Singapore with its clear preference for FDI or South Korea

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which relies mostly on loan capital, Indonesia has never clearly stated as to which of the two types of foreign capital suits its need best, though in practice loan capital by far exceeds FDI. Under these circumstances, policy on foreign capital in general and on FDI in particular oscillates depending on specific conditions of the economy.

A series of unfavourable changes in the first half of 1980s have led to a growing need for FDI in Indonesia. Following the abrupt decline in oil price, the resource position of the government worsened very seriously. Government saving or the difference between domestic revenue and routine expenditure including debt repayment, plunged from over Rp 10 trillions in 1985/86 to only Rp 2.7 trillions in 1987/88, constraining at the same time the ability of the government to make use of development assistance in which rupiah financing is required to a certain extent. The immediate response to the dwindling government saving is a strong increase in external borrowing. To overcome the shortage of rupiah, the so-called "special credit," which is a quick-disbursing programme loan the proceed of which is sold against rupiah, was innovated.

However, there are limits to this strategy of filling in the resource gap through a heavy external borrowing. Exacerbated by the appreciation of the yen in which about 40 per cent of Indonesia's debt is denominated, debt services have exceeded new disbursement since 1985. Even with a big amount of "special credit" in 1987 and 1988, the net resource transfer from external borrowing remained negative. Furthermore, there is no guarantee that Japan will maintain its present generous lending policy towards Indonesia. Yet, without Japan, Indonesia is practically crippled as far as external borrowing

is concerned.

Finally, the stock of debt and the share of debt services to government expenditures and total export have recently fuelled a growing criticism against external borrowing. In other words, external borrowing cannot provide a lasting solution to the problems arising from the structural decline in oil price. Nor is it realistic to expect a panacea from the tax efforts launched recently with much a do by the government. The ignorance of tax during the heyday of oil was too serious to allow a quick remedy. Indeed, government budget is very likely to remain austere at least in the medium-term. Indonesia cannot rely on it while attempting to return to high growth which is very much needed to cope among others with the problem of unemployment.

To expect a major improvement in the saving performance of the large state enterprise is equally unrealistic. Of the 220 enterprises of the Central Government, there are only a few with good economic performance while the rest suffer from chronic losses. In fact, the financing of investment of state enterprises relied heavily on the capital participation of the government at least until 1985. The management reform pursued in recent years by the government appears to be too fragmented to bring about a significant improvement in the saving performance of state enterprises. What seems to be likely in the future is a greater reliance of state enterprises on bank credits and capital market in the financing of their investment.

In June 1983, the government introduced a package of banking deregulation with a view to mobilizing private saving. Fixed interest rates were replaced by a floating ones. As a result, interest rates increased sharply.

The liquidity credit of the Central Bank which served as the major source of funding for the commercial banks was cut, forcing commercial banks to turn to deposit as the main source of funding. At the same time, credit ceiling was removed. The only limitation to credit expansion is the ability to mobilize saving. The larger the amount of saving mobilized, the bigger is the amount of credit a bank can give. In other words, the removal of the credit ceiling implies an incentive to saving mobilization. As a combined result of the banking reform, private saving increased substantially. However, the increase in private saving is strongly dependent on income. At a time when growth performance is weak, it is misplaced to expect a durable strong increase in private saving.

Under the circumstances described earlier, the growing need of Indonesia for FDI is obvious. The financing of current account deficit, too, will become less burdensome if the inflow of FDI increases substantially. Moreover, FDI can turn out to be of great help to secure market access abroad especially in the present world economy with the growing tendency towards "global factory," that is, a factory with global sourcing of intermediate products. This newly discovered aspect of FDI is of particular relevance to Indonesia in view of its increasing reliance on export while fostering the growth of the manufacturing sector which in turn is increasingly important as the leading growth sector because of the depressed condition of the mining sector.

Experience in the first half of the 1980s is discouraging to Indonesia in terms of the actual inflow of FDI. As can be seen from Table 1, average FDI in Indonesia during the 1980s was only 213 million SDRs annually.

Table 1

INFLOW OF FDI TO INDONESIA, 1980-1987
(in Millions of Rupiah¹)

	FDI Inflow	Share of FDI in Total Inflow of Long-Term Capital, %	Share of FDI in Gross Domestic Capital Formation, %
1980	112,615	8.4	1.2
1981	84,178	6.2	0.7
1982	149,695	4.4	1.1
1983	262,440	5.4	1.5
1984	232,404	7.6	1.2
1985	342,796	16.5	1.7
1986	332,530	9.1	1.6
1987	501,644	11.7	2.0

Notes: ¹Data from IMF's Balance of Payments Statistics using annual conversion rate of SDRs as reported in that volume.

The share in total inflow of long-term capital is small, not to speak of the share in gross domestic capital formation. Relative to its share in the combined GDP of ASEAN, Indonesia's share in new FDI in ASEAN was declining. Among ASEAN countries, Thailand was mentioned as the most favourable location for FDI while Indonesia ranked low. No doubt, the growing need for FDI was well recognized and so was the need for reform in investment policy. On the other hand, policy reform was and continues to be constrained by different socio-political norms discussed earlier, though some of these norms are fallacious or have become obsolete. The result is a half-hearted reform beginning in 1986. While the issue coverage of the reform is extensive, the liberalization is made conditional on different kinds of requirements, if less stringent than they were in the past.

Investment Policy Reforms in Favour of Export

Regulation of FDI in Indonesia starts with the Priority List issued and revised annually by the Investment Coordinating Board. This List consists of four chapters. The first chapter specifies the sectors where new FDI is allowed while the second and third chapters include sectors which are eligible to domestic investments, large and small ones respectively. The fourth chapter is a negative list, specifying sectors which are closed to new investment, both domestic and foreign.

The Priority List remains in force until today. What the reforms in 1986, 1987 and 1988 have brought about is a relaxation. The number of sectors open to new FDI has increased. Banking, insurance and leasing have been reopened. Even domestic trading which was totally closed to FDI since 1977 has allowed a limited participation of foreign capital in that a joint venture manufacturer is given the opportunity to set up a joint venture trading company for the distribution of his own products. Furthermore, a broader classification of sectors is now used in the Priority List, implying among other things a greater freedom to reinvest. Indeed, the Priority List no longer applies to an export-oriented investment, that is, investment with an export-production ratio of 65 per cent or more.

Closely related to the Priority List is the capacity licencing. An investment permit was good only for the capacity explicitly stated in the permit. Any capacity increase requires a separate permit. The rationale for this capacity licencing is economies of scale. Given the emphasis of past investment policy on import substitution, capacity limitation

was perceived to be needed to allow firms to operate at an efficient size of production. However, capacity licencing is prone to different types of miscalculation. In a market where entry is blocked, it is practically impossible to estimate correctly the size of demand. As price in this kind of market tends to exceed a market clearing one, actual demand may strongly deviate from potential demand. Furthermore, there is no guarantee that production will reach the licenced one. Some licenced capacity may simply lay dormant as some holders of investment permit may prove unable to carry out investment as planned. Some firms may even restrict production voluntarily in order to maximize scarcity rent. These weaknesses and the imperative of export have persuaded the government on the need for a flexible priority list and capacity licencing. The recent policy reforms have established some automatically in respect of expansion investment. However, the refusal to abolish the Priority List and capacity licencing is a clear reflection of the ambivalence towards FDI.

Equity regulation is another important element of Indonesia's policy on FDI. A FDI with 100 per cent foreign equity was allowed only in the first seven years after the adoption on the Law on Foreign Investment. Since 1974, FDI in Indonesia has to be in the form of joint venture. Minimum local equity was 20 per cent which was to be increased to 51 per cent within the first 10 years of operation. A full divestment was required at the end of the 30th year of operation, though the question of implementation has never been seriously addressed.

One of the stated reasons behind this equity regulation is the acquisition of entrepreneurial capability by the local partner of a joint venture. Yet, it is doubtful whether

such a positive correlation really exists. That foreign companies are very selective in establishing joint venture is a fact of life one can never deny. Given the small number of businessmen in Indonesia, foreign companies wishing to invest in Indonesia have in fact turned to this small number of businessmen again and again. What occurs is not an increase in the number of businessmen, but an amazingly rapid growth of a small number of business groups. Among this small number of groups, some complain in turn about the implicit refusal of foreign companies to transfer their know-how or about the high costs involved in such a transfer. Moreover, where joint venture is prescribed under a fully free exchange system as it has prevailed in Indonesia since 1971, FDI can establish a joint venture without a real participation of local equity. Some of the capital reported as local equity is said to be foreign capital, though the magnitude of this "clandestine" local equity is perhaps small given the relatively unattractive incentives to engage in such a joint venture. Finally, joint venture is not the only *modus operandi* that one can rely on while trying to benefit from FDI in terms of the transfer of entrepreneurial capability. An FDI owned fully by foreigners can also produce these impacts through forward and backward linkages provided that there is economic incentive to do so. Singapore is an obvious example in this regard.

Recognizing the limitations to equity regulation as an instrument to facilitate the transfer of entrepreneurial capability and the demand of potential investors for a less restrictive equity regulation, the government has decided to relax the local equity requirements. Joint venture can now be established with a 5 per cent local equity if either export-production ratio is 65 per cent or higher or

location is in a remote area, or the area chosen is one of high technology. The share of local equity is, however, to be increased to 20 per cent within the first six years of operation and to at least 51 per cent after 15 years of operation. Foreign companies can now engage in takeover of existing national companies as long as 20 per cent of equity remains in the hands of local partner. Furthermore, a national treatment is granted to a joint venture with a 51 per cent local equity, or even 45 per cent local equity if at least 20 per cent of their shares are made available to the public through the stock exchange. Certainly, this relaxation of equity regulation does not imply a qualitative leap forward. Given the long embedded mistrust against foreign capital, however, it is not exaggerating to see in it a substantial improvement, however inadequate such a relaxation may appear to be to certain groups of potential investors such as the small and medium firms.

Indonesianization of employees including top managers is an integral part of regulation on FDI in Indonesia. At first glance, this policy appears to be in line with the desire to get the most from FDI in terms of capability transfer. Yet a stringent limitation on the number of expatriates working in a joint venture is likely to boomerang. The smaller the number of expatriates, the more limited will be the capability a FDI can offer to local employees. Therefore, there is a merit in a more liberal attitude towards expatriates in a joint venture, however serious the unemployment problems are which plague the host country. In this connection, the decision of the government to relax the regulation on Indonesianization is a step forward, though implementation may continue to be cumbersome.

There is another important performance requirement in Indonesia's policy on FDI, namely local content requirement which, however, applies similarly to domestic investment. This part of investment regulation is translated into deletion programmes which set a time-table for the replacement of certain imported components by locally made components. The programmes are drawn and controlled by the Department of Industry. They cover the automotive industries, heavy equipment, household electronics, mini tractors, engines, agricultural machinery, professional electronic equipment, machine tools and pumps. The record so far is discouraging, however. The overall import content in these industries remain high. Each of the sole agents of the products has secured a number of "loyal" customers which seem to be too big to be ignored altogether, yet too small to allow a rapid increase in local content. A clear example is the motor vehicle industry which hosts nearly all brands one can think of, each with a product differentiation. The domestic market is very small, however, to allow an economically viable unit of production for the many brands. The Association of the Motor Vehicle Industry and the government itself are fully aware of the need to reduce the number of both brands and types of vehicles, if the industry is to become viable in economic terms. But neither the association nor the government has the necessary courage to allow a selection through market forces. As a result, the number of brands assembled in Indonesia continues to be large while demand is sluggish. Forcing the many firms to comply to the deletion programme becomes unrealistic. The government has to compromise again and again.

The recent policy reforms have failed to introduce a fundamental change in respect

of local content regulation. All deletion programmes remain in force. But some relaxation has taken place. Since 1986, there has been a standstill in terms of industries where deletion programme is mandatory. The date of "full manufacturing" has been postponed several times. The target of localization is now set in terms of the share of locally produced components in value added rather than the number of components, implying a greater freedom of enterprises to decide on the types of components they have to procure from domestic market. In other words, the local content regulation has watered down to some extent, though its existence alone is among the important sources of "high-cost economy." Some of the trade policy reforms imply another derogation of the local content regulation as will be discussed below.

Investment regulation can only work with an adequate support from trade policy. Local content regulation for example would be meaningless if import policy should impose no restriction on imported intermediate products. Indeed, Indonesia's trade policy in the past was strongly affected by industrial policy.

To force localization in the framework of the various deletion programmes, the importation of products in completely-built-up (CBU) form is banned. The product coverage of this band widens of course over times depending on the extent to which local production has been available. Restrictive licencing was imposed on a big number of products with the primary aim of protecting domestic producers. Krakatau Steel, a large state enterprise in iron and steel making, used to enjoy an import monopoly in a wide range of iron and steel products, allowing it to ration import in such a way as not to en-

danger the marketing of its own domestic products as well as to collect an import fee for its own benefit. In some other cases, importation of restricted products is open to competition between producing importers, but excludes importers who are not producers. The product coverage of these two types of import restriction was dramatically enlarged in 1985 partly as a response to the deterioration in the balance of payments.

Since 1986, restrictive import licencing has continuously declined in terms of product coverage. Most of the products have been removed from the restrictive licencing. As of 1988, there remain only a few number of iron and steel products which are subject to import monopoly. In some cases, restrictive licencings were replaced by tariff protection, though average tariff rate, too, has been significantly reduced. Export-oriented producers now enjoy a freedom to import intermediate products if the price of locally made product is higher than that of imported one. The same group of producers enjoy duty exemption while a customs drawback is granted to exporting producers with an export-production ratio of less than 65 per cent. However, the import regime still contains some restrictive elements. Import in CBU form of the products subject to deletion programme continues to be banned. A big number of agricultural products continue to be prohibited and remnants of restrictive licencing persist in some industries. Nevertheless, the changes in import policy are a reaching. They imply weaker incentives to inward-looking investment, but improved incentives to export-oriented one.

Designed as part of industrial policy, restriction on export of raw material is another important part of trade policy with direct bearing on FDI. An export ban is im-

posed on timber, for example, to force the relocation of wood-processing industries to Indonesia. The same applies to raw rattan. Its export is banned in the hope that production facilities will move to Indonesia. This policy has been widely criticised for different reasons, one of which relates to the fact that export ban can be replaced by export tax in a similar way in which import monopoly was replaced by tariff. However, a powerful producers association stands behind the export ban on timber and rattan, making the removal of these bans unlikely in the near future. The possibility of export ban being extended to other raw materials is small, however. The shares of Indonesia in world export of most primary commodities such as rubber or palm oil are simply too small to make an export ban working.

Signs of Improved Attractiveness

Through the various changes in policy on FDI, Indonesia has at least demonstrated its willingness to respond to changing circumstances in its economy. No doubt, the reform was engineered in a very gradual way. Some inconsistencies remain which bother at least some of potential investors. Nevertheless, it is too far-reaching to be belittled as a cosmetic reform. Commitment to further reform also appears to be strong, meaning that investors need not worry about an erratic return to past stance. The fact that the overall economic performance has started to improve provides a good evidence that the fundamentals of the recent economic reforms are sound.

Coinciding with the changes in domestic policy on FDI, the international economic environment witnesses far-reaching changes

of which some tend to improve the relative attractiveness of Indonesia as a location for FDI. Japan, South Korea, Taiwan and Hong Kong have accumulated a huge amount of current account surplus that needs to be recycled. The currency appreciation of these surplus economies is also working as a pressure to relocate certain industries to other countries. The same applies to wage increase. In short, Indonesia can basically count on a favourable external environment while endeavouring to attract new FDI, though it has to compete against a number of fellow developing countries including

ASEAN members. Indeed, this positive perception of the international environment is among the important factors inspiring Indonesia to change its policy on FDI.

It certainly is too early to judge the extent to which the reforms of the 1980s have led to a concrete result. However, one can refer to some developments which suggest that the reform has received positive responses from potential investors especially from Asian Pacific countries as can be inferred from Table 2. The amount of FDI approved by the Investment Coordinating Board has in-

Table 2

FOREIGN INVESTMENT¹ APPROVED DURING 1988
(US\$ Thousands)

	Total	$x > 25\%$	$26\% \leq x \leq 50\%$	$51\% \leq x \leq 64\%$	$x \geq 65\%$
Food Agriculture	1,000	1,000	-	-	-
Plantation	6,337	-	-	-	6,337
Livestock	-	-	-	-	-
Fishery	169,429	5,000	-	13,983	150,446
Forestry	22,307	-	-	-	22,307
Mining	-	-	-	-	-
Food Processing	109,670	27,328	1,036	-	81,306
Textile Industry	216,021	28,877	14,122	-	173,022
Wood Products	91,965	-	-	-	91,965
Paper Industry	1,507,465	1,268,193	235,000	-	4,272
Pharmaceutical	5,792	5,492	-	-	300
Chemicals	1,537,030	252,252	159,200	35,006	1,090,572
Non-Metallic Minerals	29,758	-	4,734	2,600	22,424
Basic Metals	62,800	-	16,800	1,000	45,000
Other Manufacturing	8,645	-	-	-	8,645
Services	517,826	152,576	-	-	335,450
Total	4,286,045	1,740,718	430,892	52,589	2,032,046
Percentage Shares	100	41.3	9.8	1.3	47.6

Notes: ¹Including expansion of existing projects;
x = export-production ratio roughly estimated

Source: Investment Co-ordinating Board, Monthly Statistics on Approved Investment.

creased tremendously from US\$800 million in 1986 to US\$1,240 million and US\$4,030 million in 1987 and 1988 respectively, excluding investment in oil and gas exploration which is not under the purview of the Investment Coordinating Board. The very big increase in amount approved in 1988 was partly due to two large joint ventures in petrochemical industry. But even if these two projects are excluded, the figure on newly approved FDI in 1988 remains highly encouraging compared to approval in the first 6 years of the 1980s. Furthermore, the objective of the reform to attract more and more export-oriented FDI appears also to be realistic. Among the US\$4.4 billion of FDI approved in 1988, nearly half or 47.6 per cent plans to have an export-production ratio of 65 per cent or over. Another 11 per cent plans to export at least 26 per cent of their output. This export-oriented investment was unthinkable in the 1970s. Sector-wise, manufacturing remains the most attractive sector in which in turn chemicals and textiles are the leading sub-sectors. In terms of origin, Japan continues to play the dominant role. However, there is a slight shift in 1988. The amount of Taiwanese investment approved in 1988 was as large as US\$918 million compared to only US\$226 Japanese investment approved. The extent to which this trend can continue, is difficult to tell. The year 1988 is generally seen as an exception in terms of FDI approval, and the decline in approved Japanese FDI is widely perceived to be temporary. Finally, the increase in approved FDI in service of which hotel and restaurant is the leading sector, is noteworthy. The attractiveness of Indonesia as a tourist destination seems to have improved strongly, partly because of conscious campaigns by the government but also possibly as a result of rapid economic development in East and Southeast Asia.

There certainly is a time lag between approval of FDI and its implementation. Experience in the past tells that actual inflow of FDI to Indonesia was much lower than approved investment. In other words, one has to interpret the figures in Table 2 in a cautious way. Nevertheless, these figures do tell that an appropriate adjustment in FDI policy can still work as an incentive to FDI in spite of the frequently floated hypothesis that FDI is now flowing back to developed countries themselves attracted by technological progress that makes it possible for the developed countries to reinvent the sensitive industries which in the past was relocated to less developing countries:

Closing Remarks

The picture drawn in the previous sections is a rather optimistic one as far as FDI in Indonesia is concerned. The government has demonstrated its willingness to introduce policy changes and the commitment to do so in the future also appears to be strong. Figures on FDI approval tend to suggest that the fundamentals of the reform are sound, though compromises continue to be needed here and there in order not to overstretch the socio-political constraints. At this juncture one has to note, however, that FDI in oil and gas sector is excluded. Low oil price and the existence of excess supply have worked as a major constraint on FDI in oil and gas exploration. But even in this case, the government has indicated its willingness to improve the conditions of production sharing contracts in favour of investors who, in fact, have also suffered from the weak international oil market.

What the government has done in the last three years in terms of policy reform per-

taining to FDI cannot obscure the fact that some other changes are still needed, not primarily to please potential investors but to eradicate rent-creating regulations which lead to high-cost economy. Whatever incentives the government may offer, the attractiveness of Indonesia to FDI will remain limited as long as rent-creating regulations are there that undermine competitiveness from the beginning.

In this connection, mention needs to be made of areas where further policy changes are required. First of all, improved infrastructure such as road, port, water purification, electricity, education and telecommunication is very much needed. Less regulation is required in most cases to make such an improvement possible. Secondly, a more flexible policy on localization is necessary. Where upstream industries are inefficient while down-stream industries are required to procure their intermediate products from

local producers, FDI is likely to avoid such a location. Thirdly, the investment deregulation in the last three years or so has not included some sectors, especially agriculture, including plantation agriculture. Fourthly, room for changes is still existent in respect of equity regulation. While joint venture may need to be prescribed as a general rule, an FDI without local equity should be considered in some areas such as high-tech industries. Fifthly, a Priority List and capacity licencing may have served their respective purposes in the past. The need to have them today and in the future has weakened, however.

Finally, there is plenty of room for improvement in implementation. In spite of the reform, investors continue to complain about bureaucratic obstacles. This is an area where the role of the Investment Coordinating Board needs to be strengthened.

Indonesia's Foreign Trade Relations with Eastern Europe

Hadi SOEASTRO

PRESIDENT Soeharto's recent visit to the Soviet Union has been a turning point in the bilateral relations between Indonesia and the Soviet Union. During the visit, laying the foundations for establishing friendly and cooperative relations, Presiden Soeharto and President Gorbachev signed a protocol of trade and economic cooperation. To improve the bilateral relationship, both sides have given a special emphasis on the growth of trade relations and economic cooperation.

However, so far the result achieved has been very insignificant, even disappointing. In 1988, for instance, bilateral trade between Indonesia and the Soviet Union amounted to only US\$83 million, or 0.26 per cent of the total value of Indonesia's foreign trade. Various initiatives taken so far reveal that efforts to promote trade between the two countries have not been easy. One of the main obstacles is the difference in the trade and economic systems of the two countries. But this gap can in fact be bridged by developing certain trade infrastructure. Sheer political will and mere decisions are inadequate.

Indonesia's efforts to promote trade with the Soviet Union more seriously were made again in 1984 by the visit of then Foreign Minister Mochtar Kusumaatmadja followed by then Coordinating Minister for Economic, Financial and Industrial Affairs Ali Wardhana. In his State Address on 16 August 1984 President Soeharto stated that "... efforts should be made to step up our relations with East European countries, particularly in trade and in the economic field in keeping with our need to promote national development." Long before that, similar attempts had been made by the late Foreign Minister Adam Malik during his visit to the Soviet Union in 1970 and a new trade agreement was signed between Indonesia and the Soviet Union in 1974. However, at that time the conditions necessary to improve relations did not seem to prevail, particularly on the part of Indonesia.

"Look East" Policy

Indonesia's efforts to step up trade and economic relations with the Soviet Union

and other East European countries so far have been made without campaigns or political statements. In such efforts a low profile policy has usually been pursued. However, since 1984 the government has adopted a "Look East" policy as an effort to diversify its trade. This policy is certainly in keeping with Indonesia's independent and active policy, though the current advancement of trade relations with the Eastern bloc has been primarily based on pragmatic considerations. Apparently this endeavour has not been fully supported by some circles in the government itself. In view of the difficulty and magnitude of the challenge in promoting those trade relations it seems appropriate for the government to be more vocal in campaigning for the "Look East" policy so as to attract the attention and encourage the participation of various circles in order to make this endeavour successful.

Various concrete steps have indeed been taken as follow-ups to Ali Wardhana's visit to the Soviet Union and some other East European countries. In October 1984 the government took an important step by revoking the Minister of Trade's Decision No. 234 (15 November 1978) on trade procedure with socialist countries. The decision which was indeed discriminatory was also considered as hampering the increase of trade with Eastern Europe, including the Soviet Union. Various changes in other policies have also been made, such as the one on the granting of visa, but some other obstacles on the part of Indonesia still exist. At the end of 1985, for example, the Soviet Union and some East European countries still protested against the restrictions imposed on their ships and the activities of the crew. The seminar held by the National Defence Institute (Lemhanas) in December 1985 also noted

various psychological barriers. It raised the question on the extent to which trade relations could be separated from the ideological factor.

In 1984 the government set up a coordinating team for trade with Eastern Europe headed by then Coordinating Minister for Economic, Financial and Industrial Affairs Ali Wardhana. One of the major challenges to the stepping up of trade relations with Eastern Europe was the participation of private entrepreneurs, especially as importers of East European products. If every purchase depends on the government, perhaps the problem to be faced would have been simpler. Involving the private business circle in trade in the form of barter or countertrade is not easy and actually calls for well-managed organisation. Even this can be properly realised if the Indonesian private business circles do have an interest in buying East European-made goods which are more or less of equal value to the goods exported there. Some people think that to date the interest has been quite limited due to inadequate information on the available goods, the not very attractive financial conditions, or the unfavourable image of the quality of East European goods in general and their after sale service. Hence, although all discriminatory treatments on the part of Indonesia have been removed, the endeavour to promote bilateral trade between Indonesia and the Soviet Union and other East European countries is still not easy to undertake.

Various obstacles, which are not easy to remove, have in fact been known for a long time. In addition to limited market information and differences in system and methods of payment, the main problems are the long distance and the limited shipping services, especially because of the small trade

volume. The dilemma confronted is that the shipping costs tend to be high on account of the small trade volume, whereas the high shipping costs have made the small volume of trade difficult to increase. That is why indirect trade has developed between the two countries, namely, trade through third countries, such as Holland, West Germany, Austria, and Singapore. Transferring indirect to direct trade is one of the aims of promoting trade relations between Indonesia and Eastern Europe. Creating facilities for effective countertrade also constitutes a major challenge. The experience of the Rexford-Cargill Cooperation established by the Indonesian private sector to manage countertrade with some East European countries has also added to the proof how difficult it is. Therefore, the "Look East" policy needs to be conducted in a more thorough manner. This means that any efforts -- and so many so far -- to be made must be carried through to reach its goal and should not be done halfheartedly.

Pattern of Trade with Eastern Europe

The pattern of Indonesia's trade with Eastern Europe is marked by a few characteristics. The first characteristic is the low degree of two-way trade. The percentage of Indonesia's total trade value, export to and import from Eastern hardly ever exceeds 1 per cent of the total exports or imports. In 1988, for instance, Indonesia's export to Eastern Europe amounted to only 0.65 per cent of the total exports whereas its imports from East European countries accounted for 0.88 per cent of the total imports. These figures are based on the East European grouping comprising the Soviet Union,

Poland, Rumania, Hungary, Bulgaria, Czechoslovakia, East Germany and Yugoslavia. In the Minister of Trade's Decision No. 234 Year 1979 mentioned earlier, Yugoslavia was not treated as a country belonging to the East European group.

The second characteristic is that about 35 per cent of Indonesia's exports to East Europe is directed to the Soviet Union, but the country is not the chief source of imports among the East European countries, except in 1988 (40 per cent). Previously, imports from the Soviet Union ranged between 10 per cent and 15 per cent of Indonesia's imports from Eastern Europe. As can be seen on Graph II, Indonesia's exports to Hungary and Poland have increased. The two most important countries as sources of import from Eastern Europe for Indonesia are Rumania and Poland. The third characteristic is that generally the trade value between Indonesia and Eastern Europe is not stable. As shown on Graph I, both exports and imports tend to fluctuate quite considerably. For 5 years (1984-1988), Indonesia's exports to Eastern Europe ranged between US\$126 million and US\$193 million, whereas its imports fluctuated between US\$34 million and US\$115 million.

The fourth characteristic is the trade imbalance. This situation has become a serious problem in the trade with socialist bloc countries which on the average adhere to the principle of a balanced bilateral trade. In the first half of the 1970s Indonesia sustained an ever increasing deficit in its trade with Eastern Europe, but in the second half of the decade Indonesia continued to enjoy a surplus, except in 1982. Since 1985 the surplus for Indonesia declined from US\$158 million to only US\$10 million in 1988. Indonesia's surplus in its trade with Eastern Europe has

been due mainly to the surplus in its trade with the Soviet Union (Graph I). But in 1988 unexpectedly Indonesia had a deficit in its trade with the Soviet Union. It is now too early to tell whether this development will continue or change again.

The fifth characteristic is that Indonesia's export to Eastern Europe is dominated by only a few commodities. Rubber, being the main commodity, generally accounts for 75 per cent to 80 per cent of the total export value, followed by coffee, tea, chocolate and spices, and tin. Indonesia's major import commodities from Eastern Europe comprise chemicals and machinery. On the side of export its composition has not changed much. In the 7 digit classification of goods (code: CCCN) -- hence quite detailed -- Indonesia's export to the Soviet Union in 1984 comprised 10 kinds of goods and in 1988 9 kinds of goods. But exports to Hungary and Poland were quite strikingly diversified in kind, from respectively 4 and 11 kinds only to become respectively 17 and 23 kinds in 1984, including a new manufactured commodity, namely garments. This diversification seems to account for the increase of Indonesia's export value to these two countries. On the side of import the kinds of commodities are much more multifarious. In 1984 the import from the Soviet Union comprised 24 kinds of commodity and from Hungary it comprised 60 kinds (3-digit classification). In 1988 those imports comprised respectively 36 and 48 kinds of commodity.

Although there are various similarities in Indonesia's trade with East European countries, the relationship with each country does not always develop in a similar manner. Besides it is unavoidable that the East European countries are also competing among themselves in their exports of certain com-

modities. For instance, Rumania, Hungary and Yugoslavia are competing in offering certain ports to facilitate the processing of Indonesia's exports to Eastern Europe.

Before discussing Indonesia's bilateral trade relations with each East European countries, it seems interesting to examine the trade relations of other ASEAN member countries with Eastern Europe for comparisons. In 1987 the value of Indonesia's exports and imports with Eastern Europe amounted to US\$168 million and US\$94 million respectively. Of this total the exports and imports with the Soviet Union accounted for 49 per cent and 16 per cent respectively. Singapore's export and import value with Eastern Europe in the same year amounted to US\$232 million and US\$112 million respectively, which also favoured Singapore. The Soviet Union's share accounted for 53 per cent and 36 per cent respectively. Malaysia also has a surplus in its trade with Eastern Europe, and in 1987 its exports amounted to US\$240 million whereas its imports amounted to US\$58 million. The Soviet share is more prominent, which accounted for 64 per cent of its export value and 34 per cent of its import value with Eastern Europe. By contrast, both the Philippines and Thailand experience deficits in their trade with Eastern Europe. In 1987 Thailand's exports to Eastern Europe only reached US\$70 million while its imports amounted to US\$234 million. About 50 per cent of its exports and 18 per cent of its imports are directed to the Soviet Union. The Philippines' deficit is not too significant, namely US\$14 million in 1987. However, the value of bilateral trade of the Philippines with Eastern Europe accounts for less than US\$80 million. Of that total 50 per cent is directed to the Soviet Union. This brief over-

view reveals that ASEAN's trade with Eastern Europe is also very insignificant, and each ASEAN member country has its own trade pattern with Eastern Europe.

Bilateral Relations

As mentioned earlier, of Indonesia's total trade with Eastern Europe, the Soviet Union occupies the most important place, especially with regard to export. Ali Wardhana's visit in 1984 was followed by a return visit by Soviet Deputy Prime Minister Ryabov in 1985. In this visit a protocol to set up a joint committee between Indonesia and the Soviet Union for trade and economic co-operation was signed. According to plan, the joint committee would convene once in two years. However, this was not realised, and the first meeting was held only at the end of August 1989, shortly before President Soeharto's visit to the Soviet Union.

Aside from trade fairs and exchange of visits, including one of businessmen, there is no special development in trade relations with the Soviet Union. It was not until 1988 that a new breakthrough was made. An Indonesian trade mission visited the Soviet Union in early 1988, followed by Minister of Trade Arifin Siregar in June. In the limited cabinet meeting on 7 July 1988 President Soeharto emphasized the need for integrated efforts to step up trade with the Soviet Union and other East European countries.

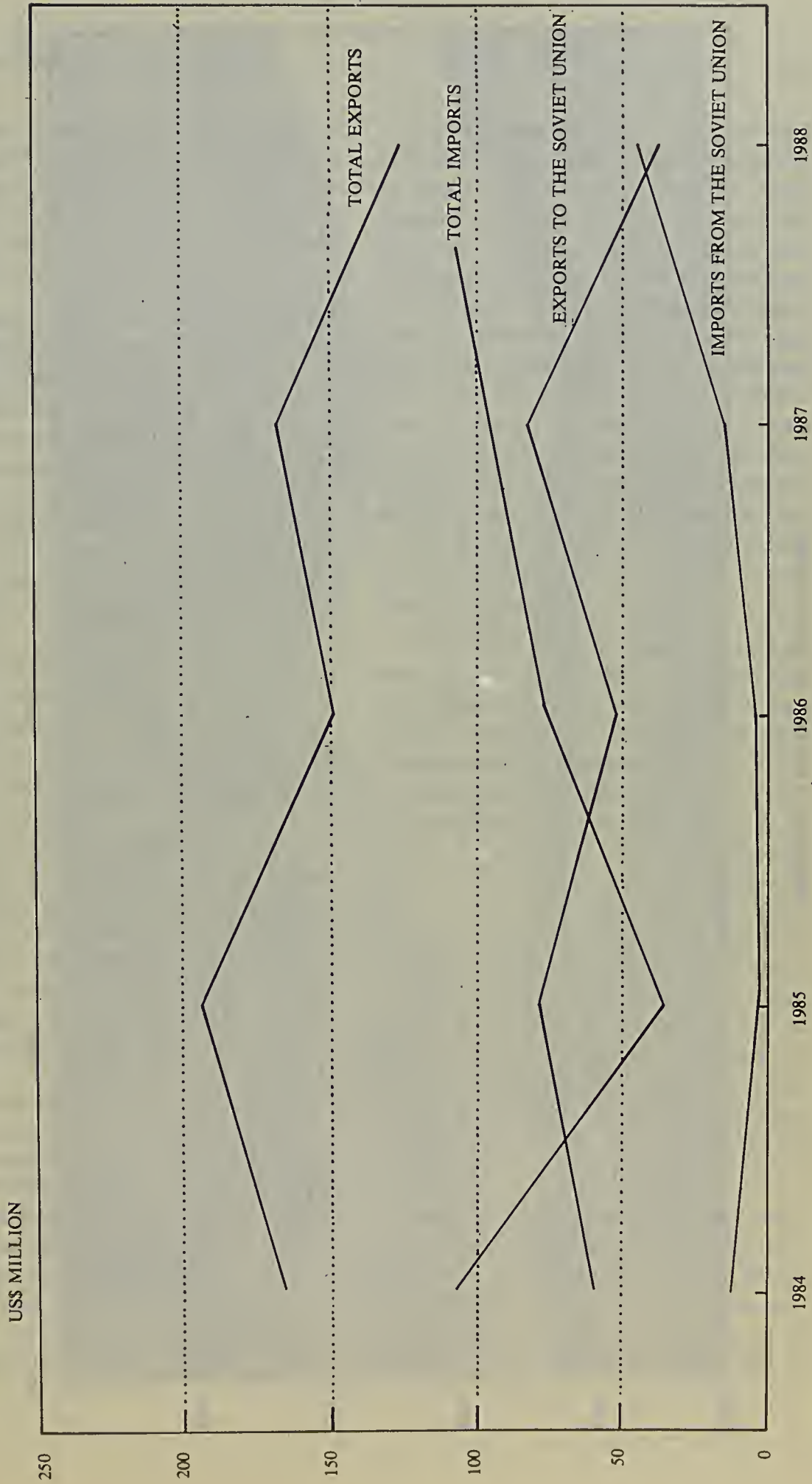
Through an exchange of various visits so far both parties have identified the kinds of goods that can be traded. Nevertheless Indonesia's exports to the Soviet Union in 1988 were still confined to only 9 kinds of commodity, and the share of two major commodities -- tea and stearin -- accounted for

68 per cent of the total exports. Indonesia's imports in that year were dominated by only two kinds of commodity. Namely potassium chloride and cotton, the value of which accounted for 84 per cent of the total imports from the Soviet Union. This picture clearly shows the need to diversify the kinds of commodity to be traded between the two countries. In the trade fair in Moscow in January 1989 Indonesia introduced various export commodities with market potential in the Soviet Union, including garments, plastic wares, rubber goods, and handicraft. Aside from the field trade, in 1989 a joint venture was signed between the two countries in the field of mining and cultivation of peat in Riau as export commodity.

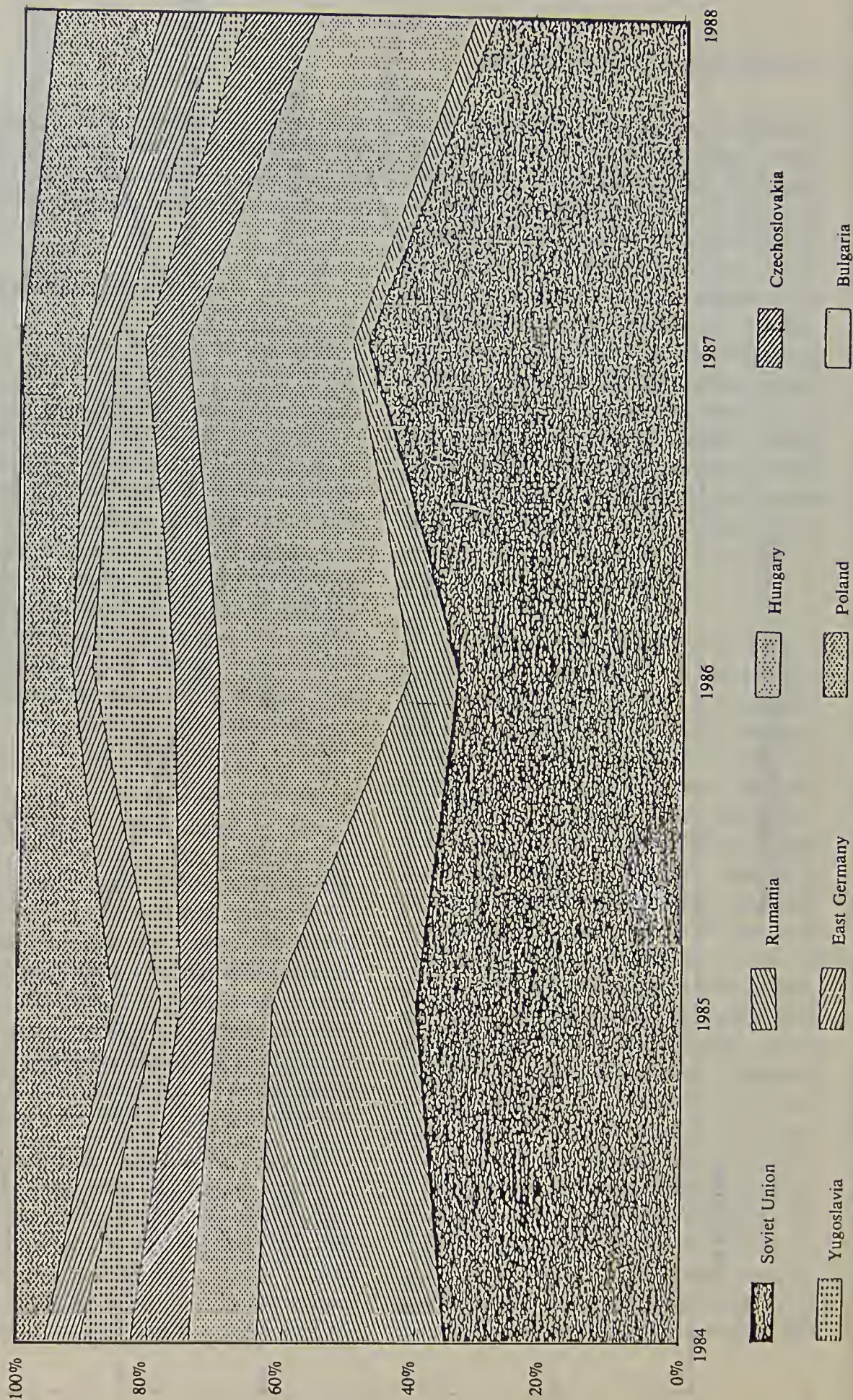
One of the instruments for the promotion of trade and economic relations between Indonesia and Rumania is the joint committee which was set up in 1982. This committee convened in 1984 and 1985. In the last meeting it was confirmed that Rumania preferred raw materials and semi-manufactured products to finished goods. Trade data show that Indonesia's exports to Rumania in 1988 comprised only two kinds of commodity, namely rubber (83 per cent) and coffee (17 per cent). Besides the limited kinds of commodity exported to Rumania, the value of exports declined from US\$46 million to US\$3.7 million in 1988. During the visit of President Ceaucescu to Indonesia in April 1988 it was agreed that efforts needed to be made to step up trade and economic relations between the two nations. In 1986 Indonesia tried to promote trade on a countertrade basis through Rexford-Cargill trading house. However, this venture did not bear fruits. Apart from trade, an agreement was signed on cooperation in the field of fishery (1987) and apiculture (1988)

Graph I

INDONESIA'S TRADE WITH EAST EUROPE



INDONESIA'S EXPORT TO EAST EUROPE



but as yet it has not shown any sign of results. Indonesia's import from Rumania in 1988 was confined to chemicals only. In 1984 Indonesia imported train coaches to the value of US\$36 million, but this purchase was made only once in a while.

Indonesia's export to Poland increased from US\$7 million in 1984 to US\$19 million in 1988. The major export commodities were rubber, tea and spices, but in 1988, an increase can be observed in the export of textile and garments though their value only amounted to US\$4 million. Indonesia's traditional commodities (rubber and tea) are not directly exported to Poland but through Holland and West Germany. Indonesia's main import from Poland is chemicals.

The instrument to step up trade and economic cooperation between the two countries also takes the form of a joint committee set up in 1983, which held meetings in 1984 and 1986. In the last meeting it was agreed that each party would make efforts to increase its respective import to around US\$50 million. One endeavour on the part of Indonesia was to step up countertrade through the service of Rexford-Cargill. Yet this venture has not been successful. In 1988 bilateral trade between Indonesia and Poland only amounted to US\$34 million, about one third of the targeted volume.

Indonesia and Hungary have also set up a joint committee to promote trade and economic cooperation. The committee established in 1985 did not convene until 1988. Aside from the promotion of trade relations, in that joint meeting a potential for cooperation in the field of industry and agriculture was identified. For the last five years Indonesia's exports to Hungary have been more varied. However, in 1988 about 71 per

cent of the total exports consisted of only one commodity, i.e. coffee. Export of garments was initiated but its value amounted to only US\$360 thousand. Indonesia's main import from Hungary also consists of chemicals. In 1988 cooperation was agreed upon between Hungary's biggest joint cooperative company and PT Kali Madu Sari (limited company in Palembang) to cultivate hybrid corn. During the visit of some Hungarian entrepreneurs to Indonesia in early 1989 the possibility of investing Hungary's capital in Indonesia was explored, among others in the field of ceramics and animal husbandry. As of 1 January 1989 Hungarian entrepreneurs have been allowed to invest abroad.

Indonesia's exports to Bulgaria increased quite significantly, namely from less than US\$1 million in 1984 to nearly US\$6 million in 1988, but imports from Bulgaria have stagnated and have amounted to about US\$2 million a year for the last five years. However, increase in exports falls far short of what both parties have expected and planned. Since March 1987, two of Indonesia's private trade enterprises, Rexford-Cargill and Prima Comexindo Trading Limited, respectively made an agreement on countertrade with Bulgaria encompassing trade valued at US\$70 million until the end of 1989. In 1988 70 per cent of Indonesia's exports to Bulgaria comprised only 1 commodity, namely rayon fabre. Indonesia's imports from Bulgaria are also dominated by chemicals.

Indonesian-Czechoslovakian joint committee which was formed in 1985 only convened once in 1986. Among the East European countries, Czechoslovakia is a country which does not stress the principle of a balanced trade. Czechoslovakia is also a

member of GATT. Indonesia's exports to Czechoslovakia have stagnated for the last 5 years. At the same time, imports from Czechoslovakia have shown an increase. Indonesia's exports to Czechoslovakia are dominated by rubber only, whereas its imports in 1988 comprised mainly scraps and chemicals. In 1987 a joint venture between the two countries, PT Zetor Indonesia, was signed in the field of tractor assembling.

Bilateral trade between Indonesia and East Germany only amounted to US\$17 million in 1988 with a position to the advantage of Indonesia. Indonesia's exports to East Germany comprise rubber and rubber products, coffee, chocolate, spices, wood products and garments. Indonesia's imports from this country consist among other things, of a variety of machinery equipment, diesel generators and laboratory instruments. Indonesia and East Germany have also set up a joint committee which convened for the third time in January 1989.

As mentioned earlier, in the Decision of the Trade Minister in 1979 on trade procedure with the Eastern Bloc, Yugoslavia was not included in this group. This means that Yugoslavia has been exempted from the

discriminatory trade policy. Nevertheless, trade with Yugoslavia has not increased. Indonesia's imports from Yugoslavia only increased in 1986 and amounted to nearly US\$30 million, but otherwise the imports only ranged between US\$4 - US\$7 million. Meanwhile Indonesia's exports to Yugoslavia have significantly declined these last few years, namely from US\$18 million in 1986 to US\$4 million in 1988. Indonesia's exports to Yugoslavia are also dominated by rubber and rubber products.

The discussion above has again revealed that in fact Indonesia's trade with Eastern Europe has a potential for expansion especially in view of the fact that the value and volume of their trade are very low. However, as discussed earlier, the small volume of trade has also hampered its development. Hence at this stage investment costs tend to become very high. But this investment is necessary. Unfortunately, various efforts made by private business circles to promote trade, namely by setting up a special trading house to deal with trade Eastern Europe -- like Rexford-Cargill -- seem to be unsuccessful. Thus experience merits a careful study in this matter.

Indonesia in 1988: Progress in Democratic Experiment?

J. Soèdjati DJIWANDONO

IT WOULD HAVE otherwise been like routine business once every five years. The People's Consultative Assembly (MPR) resulting from the general elections the year before would convene. It was the fourth in the period of the New Order. And as before, the outcome would have almost entirely been a foregone conclusion. President Soeharto's accountability report to the MPR would be approved. President Soeharto would be re-elected for another five-year term. It was his fifth. Also as before, a new Vice President would be elected.

Something, however, seems to have gone awry. Though aborted, there had been two candidates for the vice presidency. It was unprecedented. And no one therefore seemed quite prepared for the unexpected turn of events. Was there to be voting? What should happen to *Pancasila* democracy, usually conceived as a uniquely Indonesian democracy

based on the State ideology of *Pancasila* or the five principles of belief in God, humanity, national unity, democracy and social justice, which should adhere to the principle of unanimity? Was it a setback or progress in Indonesian democratic life? What does the future hold for Indonesian democracy?

In such a light the year 1988 was thus in a sense a turning point in Indonesia. It was a turning point in democratic experimentation. But the unprecedented development represented by the emergence of two candidates for the vice presidency, important though it was in itself for the future of Indonesian democracy, may have been but an expression of expectations that permeated the atmosphere surrounding the sessions of the MPR. These were expectations that this time the MPR sessions were to be more than routine business. They might be the onset of the long-awaited process of a peaceful generational change, the transfer of national leadership.¹

This is the original version of what has now appeared as "Progress in Democratic Experiment in Indonesia?" in *Southeast Asian Affairs 1989* (Singapore: ISEAS, 1989).

¹See, among others, *Jakarta Post*, 1 March 1988.

That, indeed, was an issue of even greater significance for the future of the nation. And on this account, the year 1988 was also a turning point. But how was, and is, this generational change to proceed or to be effectuated in the context of Indonesian democracy? Does Pancasila democracy provide the necessary mechanism, while the country is yet to develop a tradition of peaceful change of leadership? Did the MPR sessions of 1988 provide any clues? How should Pancasila democracy develop in the face of such an unavoidable challenge? These are crucial issues to which Indonesians should squarely address themselves sooner or later, and perhaps better sooner than later, if the nation is to avoid a leadership change that would have to be triggered by another traumatic social and political upheaval that would be a serious setback for the nation in facing the turn of the next century, which is just around the corner.

Indonesia's Democratic Experimentation

As a young nation, less than half a century old as an independent state, Indonesia clearly lacks in democratic traditions. Indeed, in efforts to justify the search for an Indonesian style of democracy, references have often been made to centuries' old practice of some form of democracy that provided forums of contact between the rulers of small kingdoms and their subjects, a tradition whereby the people (especially in old Javanese kingdoms) staged some kind of demonstration in lodging their protests against the king, and one in which a village head was elected.² Yet, it is doubtful if such

a limited experience, particularly as regards the election of a leader in a small village or locality, is applicable at all to the functioning of a large and modern state. Furthermore, little evidence seems to have been offered to indicate that contacts between the ruler and their subjects, or even protests in their traditional form, had any effect on decision making regarding the ruler's policies. In the sense of giving the subjects some sense of participation, in the implementation of policy and in providing the ruler a part of legitimacy, if not in the decision making process, such a practice has a value for the ruler. But it certainly has little democratic value in the sense of providing the people with the means by which they exercise their right somehow to take part in making decisions affecting their own lives. Above all, Indonesia has little historical tradition to draw on as far as the question of peaceful leadership change is concerned.

Lacking in democratic traditions to fall back on and faced with the challenge of modern statehood as well as for other reasons, since the beginning of its independence Indonesia has embarked on what may be called experimentation in democracy, first in western liberal democracy, then Soekarno's guided democracy, and under the present New Order, the vaguely-defined Pancasila democracy.³ It is against the backdrop of this process of democratic experimentation as well as the underlying ideas about democracy in Indonesia that an assessment may be made of the significance of the events and issues surrounding the MPR sessions of 1988, particularly the extent to

²For a discussion on this question, see, for instance, Kuntjoro Purbopranoto, *Sedikit tentang Sistem Pemerintahan Demokrasi* (Surabaya: Penerbitan Universitas, 1960), esp. Part II.

³For a brief review of these periods, see J. Soedjati Djiwandono, "Democratic Experiment in Indonesia: Between Achievements and Expectations," *Indonesian Quarterly*, Vol. XV, No. 4 (October 1987), pp. 661-670.

which they may contribute to the establishment of democracy in Indonesia.

In fact, Soekarno also claimed that his guided democracy was based on Pancasila and the 1945 Constitution. He embarked on his experimentation with guided democracy by decreeing the readoption of the 1945 Constitution. That decree, however, has been upheld by the New Order, which repudiated guided democracy not because of its ideological and constitutional basis, Pancasila and the 1945 Constitution, but because of its deviations, aberrations, and betrayal of that very basis. The New Order, in Soeharto's own words, has been "a reaction to effect a total correction on all forms of deviation perpetrated by the Order that was in power at that time, namely, which is now called the Old Order."⁴ The rejection of guided democracy, therefore, did not imply a return to western liberal democracy, for which both the Old Order and the New Order have shared a deep loathing. Both regimes have also shared certain basic attitudes and certain basic views concerning western liberal democratic traditions, however distorted they may be, which have been used to justify and explain away their repudiation of those traditions and their adoption of what is perceived to be a form of democracy that suits Indonesia's own identity, needs, and traditions. Indeed, the term liberal or liberalism has until today had a bad connotation in Indonesia, and has even been regarded as a source of threat to Indonesia's national security.⁵

⁴Acting President Soeharto's State Address, 16 August 1967.

⁵Statement by General L.B. Moerdani, then Commander of the ABRI as reported in *Kompas*, 24 August 1984.

It may be argued that Indonesia's rejection of liberal democracy was impulsive, not a well-thought-out reaction. It is hard to believe, of course, that Indonesian leaders do not understand liberal democratic principles. But in any case, in some respects the idea of liberal democracy has been misrepresented in such a way as to create problems for the understanding and implementation of Pancasila democracy itself. When Soekarno first repudiated liberal democracy that had been practised for almost a decade in Indonesia as democracy by voting or democracy of half-plus-one, he did not seem to distinguish between democracy as an ideal and democracy as a mechanism or system of government. Democracy as an ideal, of course, is of universal nature, as admitted by President Soeharto himself.⁶ Democracy as a mechanism or system of government, that is to say, as a means by which that ideal is to be given expression, may vary from nation to nation in accordance with a nation's own historical background, cultural traditions and values. But President Soekarno's repudiation of voting, which had accounted for the failure of the constituent assembly to reach a decision, has left the incorrect impression in Indonesia that voting is the essence of liberal democracy, which distinguishes it from Pancasila democracy in a fundamental way. Ironically, the 1945 Constitution itself provides for voting in the making of decisions. Thus as clear in the discussion below, the practice of Indonesia's Pancasila democracy has continued to be beset with confusion and contradictions that have never been resolved once and for all.

Later on Indonesian leaders and scholars alike have continued to condemn liberal democracy as being motivated primarily by in-

⁶President Soeharto's State Address, 16 August 1978.

dividualism, personal interests, and individual rights and liberties, rather than common interests. This, of course, may be true, though it is not the whole truth. The fact has continued to be ignored that the equal application of individual rights and liberties to everyone has served as a common constraint and limit on everyone's exercise of those rights and liberties and has created a common interest in the preservation of the system. And given that democracy as an ideal is an expression of the human demand for equality, justice and individual liberties and is universal in character, the rise of such a demand in the framework of Pancasila democracy may call forth a cynical response. As briefly referred to above, a source of threat to Indonesia's national security has been identified as "followers of liberalism, who are critical of government policies under the slogan of human rights and individual liberties."⁷

Apart from the absence of voting, on which Indonesians have continued to be ambivalent, Pancasila democracy has also been distinguished from liberal democracy in its principle of deliberations for the attainment of unanimity or consensus, as though these were unique to Indonesian democracy and thus alien to western liberal democracy.⁸ This is not to deny that there are differences in the conduct of deliberations and the achievement of a consensus between Pancasila democracy and western liberal democracy. These differences, however, are not necessarily of essential or fundamental nature. Direct, open, and often lengthy

parliamentary debates before a decision is made in western liberal democratic practice are certainly a form of deliberations. *Musyawarah* or deliberations in Indonesian Pancasila democracy are not conducted in the form of open parliamentary debates but outside the plenary sessions, and often outside formal forums, in the form of what is known as lobbying.⁹ This is by no means to suggest that one form of deliberations is better than the other. They are just different, perhaps because of differences in national character, traditions, and values. It may be argued that in the Indonesian cultural value system and traditions it is below one's dignity to be engaged in an open debate and in an open conflict of interests, that is to say, in public. It may also mean a loss of face, a disgrace, for one to lose a vote in public, and hence the bias against voting.

There is, however, a more serious consideration. The consensus in western liberal democratic practice that the minority will adhere to the decision of the majority as binding for everyone -- as distinct from the concept of consensus in Indonesian democracy¹⁰ -- is feared to create a dictatorship by the majority. On the other hand, there is fear among supporters of voting that the principle of unanimity may mean tyranny by a minority in that any minority, no matter how small it may be, may block the making of a decision. This had been a constant conundrum for Indonesian Pancasila democracy. President Soeharto said once that in the system of Pancasila democracy there will be neither a dictatorship by the majority nor a tyranny by a minority, for the concept of

⁷See note 5.

⁸For a discussion on this issue, see Mohammad Koesnoe, "Musyawarah" in *Masalah Kenegaraan*, ed. Miriam Budiardjo (Jakarta: Gramedia, 1975), pp. 55-73.

⁹See Peter Polomka, *Indonesia Since Sukarno* (Penguin Books, 1974) for an outsider's observation on this matter.

¹⁰See note 8.

majority vs. minority is not in keeping with the family spirit.¹¹

What seems to be implied in such a proposition, however, is the static concept of majority and minority as something permanent. It seems to reflect an understanding of pluralism in Indonesian society as permanent status quo rather than a dynamic pluralism with a free flow of ideas that would make it possible to change or to prevent the establishment of a status quo among social and political groupings so that what is once a majority may some day become a minority and the other way round. Indeed, in societies where people are divided along a variety of *primordia*¹ loyalties -- religious, racial, ethnic, etc. -- this may have serious implications. It may partly explain the wish of some religious circles, for instance, that despite religious freedom (a concept that is already distorted in Indonesia in that one is free to profess any religion, but profess one must by legal implication and by political connotation, a point that needs no elaboration here), no one, if possible by State law, as befits the ideals of a theocratic state, is to change one's religion. In that way the majority or minority status of religious groups in Indonesian society may be perpetuated.

Indeed, it has now become a conventional wisdom that western liberal democracy has failed in Indonesia. This may be true. But at the same time it may also be argued the other way round, that is, that Indonesia has failed in practising western liberal democracy. Not only is that type of democracy unsuitable to Indonesian conditions and traditions, but Indonesians themselves were not -- at least as yet -- capable of

practising modern western liberal democracy. At any rate, while as a mechanism or system western liberal democracy may need to be adjusted to a nation's needs and conditions, the nation itself would need a certain degree of training, education, experience and sophistication as well as the development of certain mental attitudes in order to utilize that tool in a fruitful and beneficial way, just as driving a new, modern car would need similar adjustments on the part of the driver.

Apart from other forms of abuse of democratic rights, the most serious seems to be voting on ideological and religious issues when political grouping during the period of liberal parliamentary democracy was based primarily on ideological and religious affiliation.¹² The outcome of voting on ideological or religious issues would have divisive effects on the nation as attested by past experience, for on matters of conviction a minority could not be expected to yield to the decision by the majority. From this point of view, therefore, the choice of a system that requires decisions by unanimity, now designated as *Pancasila* democracy, is a choice of the lesser evil. Indeed, voting is still basically permissible, although, as mentioned before and will be clear in the discussion below, there have continued to be ambivalence and confusion on the issue of voting, and for that matter the proposition that the principle of deliberations for the attainment of unanimity seems to be doubtful validity. At the risk of facing accusations of a tyranny by a minority, the present system of *Pancasila* democracy with its primary principle of unanimity has worked with the backing of the dual function of the armed forces (ABRI), for the main goal of safeguarding

¹¹President Soeharto's address at the Bogor Palace, 1 October 1978.

¹²See note 3.

the Pancasila ideology, particularly in the face of a continuous challenge, if now of a more subtle nature, both from the left, namely, the communist ideology, and from the right, namely, theocratic ideology. Thus the dual function of ABRI may be regarded as the main characteristic of Pancasila democracy.¹³ In this light, it seems understandable that liberalism, perhaps particularly in the form of western liberal democracy, is regarded as a threat to the current system in Indonesia.

The main difficulty with the choice of the present system, apart from the ambivalence, confusion, and contradictions that it continues to face, is that there is no way of proving or testing that it is indeed to continue to be a better alternative than either of the extreme right or the extreme left alternative. One thing is clear, and that is, that no supporter of the present system, with all its shortcomings and uncertain future development, would dare to give either of the other two alternatives a chance to be tried. Both the communist ideology and theocracy would violate basic human rights. But one would hope that during the long process of the proper growth and development of Pancasila democracy, which in time would hopefully be able to deliver the goods to the people in the forms of prosperity, social justice, equality and progress in the educational field, individual freedoms, etc., would deprive both the extreme left and the extreme right of issues on which they thrive. Threats from these sources can only be neutralized by what the present system can offer and deliver, which is better than what-

ever is promised by either of the other two alternative systems.

The Vice Presidency and Pancasila Democracy

The emergence of two candidates for the vice presidency, Mr. Sudharmono and Mr. J. Naro, respectively chairman of Golkar (the functional group) and that of PPP (United Party for Development), was a precedent. It prompted open debates in the press among politicians, scholars and political observers alike on a number of issues. This in itself may be regarded as a sign of progress in Indonesian experiment of democracy, particularly in a country where the principle of self-imposed censorship for the press is supposed to have prevailed. It may augur well for the future of Indonesian democracy, even if what may have been a serious test for the functioning of Pancasila democracy did not occur because the PPP (not Mr. Naro himself) finally decided to withdraw Mr. Naro's candidacy at the last minute for "national unity" and consensus.¹⁴

In fact, the debates themselves were neither interesting nor intellectually inspiring. Yet to some extent they did help to reveal the vague and uncertain nature of Pancasila democracy, which has mostly been described, formulated or defined in normative rather than operational terms. They helped to reveal its contradictions and ambiguities and the degree of confusion and ambivalence on the part of many Indonesian scholars and politicians alike, as regards the true meaning of Pancasila democracy and the application of its principles.

¹³See *ibid.*; see also Djiwandono, "The Military and National Development in Indonesia" in *Soldiers and Stability in Southeast Asia*, ed. *idem* with Yong Mun Cheong (Singapore: Institute of Southeast Asian Studies, 1988).

¹⁴*Antara*, 12 March 1988.

Most of the debates concerned the issue of whether or not voting was to be resorted to in the face of the two candidates. Some were against, but many others for voting, while some were simply ambivalent and indecisive. The reasons for their positions varied, but mostly were related to their understanding of Pancasila democracy in contrast to western liberal democracy. A prominent professor, who is also a member of the MPR, was against voting in the election of the Vice President on the ground that deliberations for unanimity is a characteristic of Pancasila democracy, which avoids voting. This represented the majority view of those opposed to voting. Contrasting Pancasila democracy with liberal democracy, however, he said that voting in liberal democracy has a political consequence in that those who lose will become the opposition, showing, if he was correctly quoted, his inadequate understanding of opposition in liberal democratic system. At the same time he revealed his own ambivalence as well as that of Pancasila democracy itself when he said that "voting conducted after we have made maximum efforts in deliberations should not be regarded as odd."¹⁵ Another MPR member, who is also a prominent lawyer, said with some vague logic that the election of the Vice President need not be conducted through voting so that deliberations for unanimity may be successful.¹⁶

While echoing the same spirit, saying that voting would damage Pancasila democracy and that he was opposed to voting for the continued survival of Pancasila democracy, and MPR member of PDI (Democratic Party of Indonesia) added a new element to the argument. He suggested that the

election of the Vice President be left to the President-elect on the ground that he knew better than anybody else who would be able to work with him.¹⁷ And describing Pancasila democracy as being characterized by mutual tolerance, another member from the same party said that therefore one must respect the appeal of President Soeharto as father of the nation. If Mr. Naro should withdraw his candidacy, it would mean respect for the President.¹⁸

Such is a trend, it seems, that has developed within Pancasila democracy. Because of some kind of a vote-phobia, while unanimity is not always easy to reach, a great many decisions, particularly regarding the nomination or appointment of personnel to some important positions, are often referred to the President, whose blessing and guidance are needed. During the period of President Soekarno, at least he once explicitly stated, when propounding his guided democracy, that the people's representatives should conduct deliberations until unanimity was reached. But in the event that they failed to reach a decision in that way, they were to refer the matter to the leader (Soekarno) who would then make the appropriate decision.

It is interesting to note then President Soeharto's own attitude towards the issue of the vice presidency. For the first time he put forward his own criteria for a candidate for the vice presidency, if without specifically mentioning any name, although it could be inferred. He said that the candidate for the vice president should have the mental attitude of the Pancasila ideology, although no one seems to really know how this was to be

¹⁵*Pelita*, 9 March 1988.

¹⁶*Suara Pembaruan*, 9 March 1988.

¹⁷*Merdeka*, 8 March 1988.

¹⁸*Pelita*, 10 March 1988.

applied; secondly, he must have personal integrity and capability; and thirdly, he must be acceptable to all layers of society and enjoy the support of the largest and dominant social and political force.¹⁹ As regards the question of voting, he said that it is a characteristic of liberal democracy. He therefore suggested, if somewhat contradictory, that the candidate that was not likely to win a majority vote ought to withdraw in order to give the chance to the other candidate who was likely to win a majority vote.²⁰ How this was to be judged without some kind of voting was not clear either, unless it was assumed, perhaps rightly in the Indonesian context, that all the members of the largest political party, in this case Golkar, would cast their votes for the same candidate. At the same time, the President also insisted that Pancasila democracy necessitates the application of the principle of unanimity on the basis of deliberations in making decisions.²¹ Much earlier he had stated that Pancasila democracy did not recognize the existence of a majority.²²

Those in favour of voting mostly argued, rightly, that it is provided for by the constitution. One MPR member from the PPP, however, emphasized that Indonesian society is not ripe for democracy and that therefore there is need for political education such as in the form of making decisions through voting.²³

Indeed, voting as a mechanism of decision making should no longer be alien to the

¹⁹*Angkatan Bersenjata*, 1 March 1988.

²⁰*Suara Karya*, 7 March 1988.

²¹*Antara*, 9 March 1988.

²²President Soeharto's State address, 16 August 1967.

²³*Kompas*, 11 March 1988.

MPR since it was introduced in the MPR sessions in 1978. And since then MPR decisions on a variety of matters have been made by voting. Legally, moreover, not only is voting allowed by the constitution, but at least two MPR decisions concern the problem of voting. The MPR decision No. II/1973 explicitly provides that in the event that there are more than one candidate for the vice presidency, election shall be conducted by secret ballot. The MPR decision No. I/1983 even provides that a similar method shall be employed for what are regarded as important questions. Moreover, voting is also permitted by the MPR's rules of order.

Thus the arguments for and against voting should serve only to indicate the continuing ambivalence towards Pancasila democracy. They also serve to indicate the ambiguous and uncertain nature of Pancasila democracy and its lack of operational value as a system of government and as a guide to action. In fact, theoretical statements about Pancasila democracy have mostly been in the nature of moral and philosophical norms. Attempts to make it operational and to employ it as a guide to action would only reveal its ambiguities, uncertainties, and even contradictions.

It is perhaps conscious of such ambiguities and contradictions that some people have simply been ambivalent regarding the issue of voting. Thus contradiction notwithstanding, a Golkar member of MPR, while maintaining in principle that voting is not contrary to Pancasila democracy and that it is a sign of modernity,²⁴ stated that what is important is not majority vote but majority opinion,²⁵ whatever that means. In

²⁴*Pelita*, 10 March 1988.

²⁵*Ibid.*, 7 March 1988.

contrast, while in principle opposed to voting, an MPR member from the PDI argued that a decision by voting and one by consensus are legally equal but the latter is politically more important.²⁶ Speaker of the MPR approved voting as a last resort.²⁷ And the President himself agreed that voting may be employed in accordance with the constitution if a consensus cannot be reached through deliberations. But he pointed out that a decision by voting does not reflect what he called "truly round democracy" but "oval democracy."²⁸

Finally the debates also concerned the very issue of candidacy for the vice presidency, particularly now that there were two candidates. A Golkar member of MPR disapproved Mr. Naro's candidacy for being not in conformity with what he called the culture of the New Order.²⁹ This was certainly a strange opinion, not only because he did not define what he meant by the culture of the New Order, but he also ignored the fact that Mr. Naro's candidacy was announced before that of Mr. Sudharmono. He also said that Mr. Naro was not being realistic for he knew that he would lose. Mr. Sarwono Kusumatmadja, then Secretary General of the Golkar, even went so far to suggest, as if echoing the President's opinion,²⁹ that Mr. Naro should withdraw.³⁰ Mr. Kharis Suhud, Speaker of the MPR, however, insisted that only the factions in the MPR could withdraw their candidates. Or else it would be unconstitutional. He therefore doubted the accuracy of the report on the President's

view.³¹ And a PDI member of MPR, while noted already for his opposition to voting, later stated nonetheless that Mr. Naro's withdrawal indicated that Pancasila democracy was not yet fully developed.³² And Mr. Darussamin, Secretary General of the PPP, called the suggestion on Mr. Naro's withdrawal from the vice presidential race unethical.³³

Indeed, the vice presidency suddenly seems to have assumed greater importance than before, and the candidacy for the office became a controversial issue not only because of the PPP's bid but also most probably because of expectations for possible generational change of national leadership in Indonesia before the next sessions of the MPR. Such expectations may have partly been aroused by speculations rampant in Indonesia before and even during the MPR sessions that President Soeharto might decide to step down in the middle of his fifth, final term of office.³⁴ If that should be the case, he would be succeeded by the Vice President for the remainder of his term before a new President was to be elected by the next MPR.

The speculations may have also accounted for the apparent doubts on the part of the political groups, including the armed forces (ABRI), as to who should be the most suitable candidate for Vice President in the light of such a prospect. These doubts were reflected in the fact, again unprecedented, that although Mr. Sudharmono was finally elected Vice President unanimously, he had not been nominated unanimously by the

²⁶*Kompas*, 11 March 1988.

²⁷*Pelita*, 9 March 1988.

²⁸*Suara Karya*, 7 March 1988.

²⁹*Kompas*, 9 March 1988.

³⁰*Ibid.*, 6 March 1988.

³¹*Ibid.*

³²*Merdeka*, 12 March 1988.

³³*Jakarta Post*, 5 March 1988.

³⁴See *Far Eastern Economic Review*, 3 March 1988.

MPR factions, so unlike his predecessors. In point of fact, only the Golkar and the regional factions nominated Mr. Sudharmono for the vice presidency. The ABRI faction only "supported" his nomination.³⁵ Later on, the PDI faction decided to "strengthen" the nomination,³⁶ and withdrawing Mr. Naro's candidacy, the PPP finally also approved of Mr. Sudharmono's nomination. This should shed some light on the degree of support that Mr. Sudharmono enjoys among the political groups, and more significantly among the ABRI. But what this phenomenon really signifies for the future political change affecting the national leadership in Indonesia is anybody's guess, especially after speculations about President Soeharto were quelled by his determination to carry through his full five-year term that he expressed in his swearing-in ceremony speech.³⁷

The speculations about the presidency may also help explain the candidacy of Mr. Naro, who at the same time may have had an inkling about the lack of unanimous support for Mr. Sudharmono well in advance. Mr. Naro may have indeed been in a sense unrealistic. This issue will be briefly discussed in the next section. Most probably he would also have lost the contest, although this can never be tested or verified, because his party ultimately decided to withdraw his candidacy. But if the main reason for his withdrawal was the general fear of voting, though not necessarily on his party's part, which probably did not see much prospect of winning anyway, and the kind of pressure built up by the controversy over his candidacy, then Mr. Naro's case may shed more

light on the nature of Pancasila democracy. It is that the system seems to require no less than 100 per cent support for its leadership, which would not venture to test its popularity among the people through an open contest, and hence the need to avoid voting. This may help explain why President Soeharto, for instance, never seems to see the need to campaign either for Golkar's victory or for his own candidacy for the office of President that he seems to take for granted. But perhaps in a developing society like Indonesia, marked by such great diversity where seeds of potential conflicts against different primordial backgrounds are still rampant, and traumatized by past experiences, such a system is under the circumstances the most desirable for the preservation of national unity and cohesion and, indeed, for the continued survival of the state. It is in this sense, though, that Indonesia is at this stage not as yet ripe for a modern democratic system, whatever its designation.

Whatever the case, Mr. Naro has set a precedent that may be of significance for the future of Indonesian democracy. He said at one stage that what was being done by the PPP was important for the political education of the young generation, so that from then on they would have the courage to make up their minds.³⁸ In fact, the case of the candidacy for the vice presidency has been generally regarded as something positive. It was progress for Pancasila democracy, said a senior retired Lt. General. And a professor, while looking at the issue merely as an exercise at this stage, cautiously said that as a political process it was probably a step forward.³⁹

³⁵*Suara Pembaruan*, 2 March 1988.

³⁶*Ibid.*, 2 March 1988.

³⁷*Angkatan Bersenjata*, 12 March 1988.

³⁸*Merdeka*, 3 March 1988.

³⁹*Suara Pembaruan*, 3 March 1988.

The Succession Issue

The problem of succession in Indonesia, if ever openly mentioned at all, is normally discussed in such oblique terms as “generational change” and “generational transfer,” particularly from the so-called 1945 generation now in power since the beginning of Indonesian independence, to the next. In Indonesia, the term “generation” in this context is associated above all with certain years of epoch-making events in recent Indonesian history such as 1928, the year of the youth’s pledge; 1945, the year Indonesia’s independence was proclaimed and the beginning of Indonesia’s national revolution, and 1966, the end of the Old Order and the onset of the New Order. But this is another ill-defined concept. For one thing, who really belongs to any of those generations, or what age groups, is never clear. This would not be important, of course, unless such a definition should involve power and privileges, which it does, apparently. For another, defining a generation purely in terms of a particular year or period ignores other generations of people not connected with any particularly significant year or period who should be entitled to equal rights.

The term “generation” is also related to age groups, and hence the issue of transfer from the older to the younger generation. This seems at a glance to make more sense. All nations go through the process of generational change, if in an imperceptible way. But the process of leadership change is not necessarily related to age, which in this case seems irrelevant. President Reagan of the USA, for instance, was probably the oldest American ever elected to that office in American history, much older than one he succeeded.

In Indonesia, moreover, an increasing number of people from the younger generation, at least younger than the so-called 1945 generation, have been co-opted in the established state and government institutions, civilian as well as military. In this sense, a regeneration or the process of generational change has indeed taken place, and naturally this process will continue. What seems to be really at issue, therefore, is a change of national leadership, because this has never taken place since the beginning of the present order. This, too, will naturally take place. The main question in everybody’s mind is most probably who will succeed the present leader. The next important question is perhaps when this will take place. But from the point of view of democracy as a system of government, the most crucial question is how this will take place. This is the real issue of succession in Indonesia.

It is clear that, as mentioned earlier on, Indonesia is yet to develop a tradition or establish a system for a peaceful change of leadership. Since its independence, Indonesia has had a change of leadership only once, from President Soekarno to President Soeharto. It was not the outcome of a forceful seizure of power or a coup d’état in the conventional sense of the word. Yet President Soekarno was slowly and cleverly manoeuvred and eased out of office as a result of circumstances that had developed out of a violent political turmoil set in motion by the abortive communist coup attempt in 1965 (*Gestapu*) which he failed to condemn in disregard of popular demands, a failure that proved to be his own undoing. In a manner perhaps uniquely Indonesian, he was formally eased out of office by constitutional means or by constitutional manoeuvring. It is this lack of tradition and the

absence of a system or mechanism for a peaceful change of leadership that seems to account for the rampant speculations and rumours in Indonesia on the succession issue. The appropriate system or mechanism is simply not in place that would provide some guide as to who, when, and how.

Indeed, the 1945 Constitution provides for a limit of the President's term of office to five years. But it also provides that he can be re-elected without stipulating for how many times (article 7). And until today, after having been re-elected to his fifth term, there are no clear signs that President Soeharto is going to step down or retire at the end of his current term. And when discussing the problem of nomination for a Vice President and giving his own criteria for a candidate for the Vice President to a group of senior politicians quoted earlier, the President also suggested that in the future such criteria might also be applied to the election of President. But he did not indicate whether the next candidate would be him again or somebody else. He did say, nonetheless, that he did not want to groom a successor or an heir apparent, for that was not his business.⁴⁰ In fact, there have never been clear signs that he ever does.

Another legal provision that governs leadership succession is the MPR's decision No. VII/1973 on a possible incapacitation of the President and/or the Vice President. It distinguishes between permanent and temporary incapacitation. Yet the definition of "permanent incapacitation" that it provides does not deal with different possible ways in which a situation of permanent incapacitation could be created that might result in different scenarios of a political crisis in a coun-

try like Indonesia without a well-established tradition or a well-tested mechanism to cope with them so as to ensure a smooth and appropriate process of succession while maintaining "business as usual" in the management of government.

Normally a general election would be a mechanism for a peaceful change in a democracy. But in Indonesia a general election is held for members of the House of Representatives (DPR) and the MPR, not for the President or Vice President. And although the MPR, which includes the DPR, is to elect the President and the Vice President, the general election does not necessarily affect this process because the political parties, including the Golkar, do not make a prior commitment to nominating a candidate either for President or Vice President so that the electorate may cast their votes on that basis. At least in this respect, the electorate practically give a blank cheque to the political parties. The idea suggested by a Golkar member of MPR, Dr. Nurcholish Madjid an outstanding young Moslem scholar, that candidates for President and Vice President should be nominated before the general election and be made part of the parties' platforms during the election campaigns, therefore, sounds sensible.⁴¹

In principle, on its part the MPR can topple the President while in office or refuse to re-elect him after the end of his term. In the first case, by constitution the MPR, at the request of the DPR, may convene a special session to demand the President's accountability on the basis of the DPR's allegation that he has violated the constitution or failed to carry out his mandate. This is what was done against President Soekarno that finally led to his downfall. But what happened to

⁴⁰*Kompas*, 6 March 1988; *Suara Karya*, 7 March 1988.

⁴¹*Antara*, 12 March 1988.

President Soekarno must be seen as a sequence to a series of events that formed part of the aftermath of the *Gestapu*, which had created the crisis situation, in which President Soekarno had lost popular support, including the support of the military establishment, particularly the Army. Under the present New Order, this is unlikely to happen again unless a similar crisis situation should develop. Not only has President Soeharto continued to enjoy the necessary support of the ABRI, but he himself is of the ABRI, whose role has been dominant in the political life of the New Order, and this role has now been entrenched in legislation in the framework of institutionalising the dual function of the ABRI (*dwifungsi*).⁴²

In the second case, the President is required by law to give his report of accountability to the MPR. But for one thing, this report is given to the MPR, which of necessity is the newly elected one because the MPR that had elected him President has by then been replaced by the new one. For another, the provision that the President is "responsible" to the MPR is never clearly defined, except in the form of his report of accountability at the end of his term. And until now his report of accountability to the MPR has never failed to obtain its unanimous approval. While a special session of the MPR is unlikely as mentioned earlier, the only possible "price" that he is likely to pay for failure of having his report approved by the MPR would possibly be to lose his chance of renomination and thus of re-election. But in any event he will then have carried through his full five year term. At the same time, given the MPR's approval of the President's report of accountability, there is

no good reason for the MPR not to nominate him for re-election, unless and until the President himself intends to retire.

Thus under the kind of circumstances that have developed out of this non-change situation, especially in the absence of a tradition of peaceful change as well as in the absence of an appropriate mechanism, a peaceful change of leadership can only be effected if and when the President clearly indicates his intention to step down or retire at the end of his term, irrespective of whether or not he chooses to groom a successor or an heir apparent; or better for the future of Indonesian democracy, if while in office the President should initiate legislation that would govern a peaceful leadership succession in the future. After all tradition must start somewhere. In the context of Indonesian cultural value system, perhaps the initiative should come from the national leadership. Moreover, by constitution, which provides that the President is vested with legislative powers (together with the DPR), reinforced by further legislation especially in relation to the dual function of the ABRI, and buttressed by cultural factors, Indonesia has developed a very powerful system of executive leadership.

This is not to suggest that the institutionalization of a system or mechanism for leadership succession and thus the establishment of a tradition of peaceful change, entirely depends on the powers and the disposition of the President. Indeed, in addition to the kind of constraint referred to earlier that has more or less obliged the MPR always to nominate the President for re-election, the fact that no system or mechanism is in place and no tradition to serve as a guide may also account for the apparent lack of courage on the part of the MPR (not

⁴²See Djiwandono, "Military and National Development."

to mention the vested interests nurtured by the bureaucratic ossification of the state and government institutions with a stake in the perpetuation of the status quo) or, to be more accurate, the factions in the MPR, to nominate a new candidate, or at least a second candidate for President as well as one for Vice President, and preferably well before the general elections. It is in this respect that Mr. Naro's candidacy for Vice President, though not before the elections, has made positive contribution to the development of Indonesian democracy.

Moreover, with political parties discredited and practically neutralized as properly functioning democratic institutions by their past failure in the period of both guided democracy and especially liberal democracy in the 1950's, there seems to be little hope, for a long time to come, for them to win national leadership in Indonesia. Now that the dual function of ABRI is a dominant feature of Pancasila democracy under the present order, there seems to be a tacit general acceptance in Indonesia that for at least a few more generations the President should not only be a Moslem but he should also enjoy the full support of the ABRI. It is in this sense that Mr. Naro, despite his positive step in another sense, was unrealistic. The best the political parties can hope to achieve under the present system will be seats and positions in the legislative bodies as a means by which they help provide legitimacy for the regime in power.⁴³ In fact, even the Golkar, which has attained ascendancy partly out of the decline of the political parties and which was actually established by the ABRI to

counter the ideologically oriented political parties, particularly the Indonesian Communist Party (PKI) in the 1960s, serves mainly to support the legitimacy of the present regime and order. To call Golkar a ruling party, therefore, seems to be a misnomer. Rather, it is the "ruler's party."⁴⁴

Conclusion

The Pancasila ideology embodies universal values. This is an article of faith in Indonesia. As an ideal or *das Sollen*, therefore, Pancasila democracy should also have universal value and applicability. And the common assertion that Pancasila democracy is uniquely Indonesian would seem to be a contradiction, unless one refers to it primarily as a system of government conceived to be best suited to Indonesia's traditional and cultural values, needs, and conditions. These, however, which constitute *das Sein*, may change with changing times, in contrast with the ideal, which by definition will never be fully realised. This, of course, is a proposition of elementary logic. Yet one possible source of confusion and ambivalence concerning Pancasila democracy may very well be a failure to distinguish between what should be and what is, and hence the apparent inability on the part of many in Indonesia to recognize the gap between the norms of Pancasila and Pancasila democracy on the one hand, and on the other their application in the realm of practice and reality.

Indeed, it may be argued that Indonesia's offhand rejection of the so-called western liberal democracy seems to have been based on the same erroneous way of thinking. It has resulted in confusion regarding the prin-

⁴³For a discussion on this issue, particularly regarding the PDI and the PPP, see Syamsuddin Haris, "Pola Kecenderungan Konflik Partai Masa Orde Baru," *Analisa* (CSIS), Vol. XVII, No. 5 (May 1988), pp. 268-292.

⁴⁴See an interview with Rachman Toleng, a former Golkar functionary, in *Kompas*, 20 October 1988.

ciples and application of both liberal democracy and Pancasila democracy. This is reflected in the apparent tendency, at all costs, to see differences and to reject almost any apparent similarity between the two types or styles of democracy as systems of government.

Therefore, in the light of such confusion, and granted that democracy as an ideal, whatever its designation, is a universal value, any attempt to assess progress in democratic

experimentation in Indonesia must relate to the extent to which the working of the Indonesian system of government, which is designated as Pancasila democracy, measures up to the universal democratic ideals. That is to say, the extent to which Pancasila democracy as a system of government succeeds in delivering the goods in fulfilment of the demand for equality, justice, and freedom or individual liberties, in bringing *das Sein* closer to *das Sollen*. In this sense democracy is clearly for ever a matter of degree.

Indonesian Domestic Politics and Its Impact on Foreign Policy

Jusuf WANANDI

Introduction

THIS PAPER explores internal changes in Indonesia which have an important bearing on its foreign policy. The Indonesian society is currently undergoing more rapid changes than before, not only in the economic field but also politically, socially, and even culturally. Therefore, it is important to anticipate and to understand the fundamental changes that could occur in Indonesia's foreign policy as a consequence of changes in the domestic scene. This paper also attempts to analyse how those possible changes in foreign policy orientation will be manifested in the implementation. The concluding section of this paper suggests the main implications of those changes for Indonesia-US relations.

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Changes in the Domestic Scene

Generational changes and presidential succession are currently seen as the most important factors that will greatly influence Indonesia's domestic scene for the next five years or so. One question is whether the new generation of leaders, both civilian and military, will be as pragmatic as or will become more ideological than the current leadership in the implementation of Indonesia's active and independent foreign policy. An important issue is whether this new generation, which has a need for its own legitimacy, will choose to adopt a nationalistic stance that is on par with that of the older 1945 generation or at least will opt for a somewhat more pronounced nationalistic posture than the very pragmatic policies of President Soeharto. There is the expectation, however, that in its manifestation this "new nationalism" would be sufficiently pragmatic, since the new generation is more exposed to the international environment and is more appreciative of the fact of international interdependence.

Another important source of change is the growing pressures to open up the political system of the New Order. Among other things, this has been expressed in the demands for a new formulation of and a new national consensus on the dual role of the armed forces and on the future of civilian-military relations in Indonesia. The more concrete questions are: How dominant a role and influence will the civilians (excluding the bureaucracy) have in the political affairs of the country in the 1990s? How will the new generation in the military adjust its dual role in the face of its own modernization and changes in the society. As demonstrated by developments in Latin America, South Korea, and recently in Thailand, adjustments in the relationship between the civilian and the military have to be made an ongoing process if political turmoils are to be prevented from arising in the future.

If a smooth adjustment in this relationship can be engineered and if a new social contract between the military and the civilian can be produced in 1993, much in the same way as it was obtained in 1966-1967, one could expect a new political climate to develop in which people's participation in the political process will be greatly enhanced. This also means a broader participation from within the society in the formulation of foreign policy. This definitely will complicate the process of foreign policy formulation. However, changes in the process need not necessarily lead to changes in the basis of foreign policy.

Changes in cultural values are another factor that could affect greater openness in society and changes of socio-political systems as well as support the internationalization of Indonesian society. It should be noted here that the idea of internationaliza-

tion still has limited acceptance because the changing nature of the international environment is not yet widely recognized. It is important, however, that internationalization will not be equated with Westernization, which is strongly resisted. Appreciation of universal values and of the gains from more intensive international interactions has been on the rise but its continued development depends upon the capacity of society to absorb their effects.

History has shown that during the past centuries the major societies in the Indonesian archipelago had sufficient abilities to absorb the influences of various cultures and values. However, that process took place over a long time. Perhaps it is true that even until this day Indonesian society has not yet completed the absorption of Islamic and Western values. Meanwhile the challenge to society has become so much greater today particularly because of the rapid progress in technological developments and their dramatic effects upon communication and other important transactions among nations. South Korea is a vivid example of a society that, in a sense, has become like a pressure cooker because it is undergoing a dramatic transformation only within one generation. This has greatly affected its social structure at the time when it still is in search of a political structure. In comparison, Japan was in a much more favourable situation in that the transformation there occurred over a longer time period.

It is not easy to speculate on how Indonesia will perform on this score under present circumstances. Its own experience in the past has often been referred to as an example of successful acculturation. Another model that is often referred to as a relevant source of inspiration is Japan's modernization. But the

Japanese experience also demonstrates that internationalization of its society and its various internal structures is not an easy task. Of the many cultural factors, religious values also play an important role in the Indonesian context. Indeed, new and progressive indigenous ideas are being developed by young Indonesian muslim scholars, such as Abdurachman Wahid, Nurcholis Madjid, Amien Rais and Adi Sasono. However, it is still too early to predict the effects of this new thinking upon the society at large.

Pressures for greater openness and greater participation are definitely on the increase. This is largely a result of the general improvement in the country's economic well-being and the greater realization that the Indonesian society must take part in the dynamic developments of the international environment. Indonesians have taken note of the fact that even a large and established country like the Soviet Union has come to recognize the need for domestic restructuring and greater openness to the outside world as well. This is also the case in China, and an interesting lesson can be learned from its recent experience. Chinese leaders who have overreacted so negatively to the demands by and pressures from the students will soon enough recognize that they will not be able to resist them for long without jeopardizing China's economic development. Indeed, the importance of economic development to its national development, national pride and international prestige cannot be overstated.

Economic development is definitely also a major factor in Indonesia's national development. The political importance of the economic factor lies in the fact that economic development provides legitimacy for the government. For the past 20 years or so

economic development has been consistently seen as the crucial factor in the nation's development and accordingly has been accorded highest priority. Although great progress has been made, the economy has not yet achieved the level of self-sustaining growth and is therefore still considered vulnerable. However, economic vulnerability is a matter which the country has to cope with as it has opted for openness and has followed an export-oriented strategy. This orientation requires the country to pay greater attention to and to recognize its greater stake in international developments. Indonesian leaders realize that economic interdependence with countries in the Asia-Pacific region is continuously on the rise and accordingly they now assign greater importance to consultations and cooperation with the economies in this region.

Internally, significant policy changes -- trade, financial and fiscal reforms and deregulation -- have been introduced during the past few years. These changes are meant, on the one hand, to rationalize and to minimize government interventions in the economy and, on the other hand, to enhance the role of the private sector. These policies have already resulted in a dramatic improvement of the economy, particularly since 1987, as demonstrated and led by sustained increases in the exports of manufactured products. However, these successes have not overshadowed the serious problems of unemployment and growing inequalities. It cannot be denied that these problems have important socio-political implications. In addition, the slow but continuous growth of the middle class has brought about greater demands for political participation and for a further opening up of the political system. When the economic pie is growing, the nation's ability

to resolve these problems are much greater than when the economy is stagnant. Therefore, if the current recovery of the economy can be sustained over the years to come, the transitional period of generational and leadership changes in and around 1993 will be easier to manage.

In spite of the many problems that the country is still confronted with, the scenario that can be derived from the above brief examination remains rather optimistic. First, one should take note of the fact that as a result of the new economic policies, the country has now acquired a much greater degree of flexibility that it requires in order to be able to effectively manage its dependence on global economic developments. Second, in view of the still quite strong trauma relating to the events of 1965, it is still realistic to expect that the leaders from both inside and outside the government will do their utmost in exercising great restraints in the political field.

Future Directions of Indonesia's Foreign Policy

There are two main challenges to the formulation and implementation of Indonesia's foreign policy over the coming years. The first challenge is that of adjusting Indonesia's active and independent foreign policy to global changes and especially to the dramatic developments in the Asia-Pacific region. The important features of the current international environment are among other things as follows: the increased importance assigned to economic factors over ideological considerations in the interactions among nations; the continued shifts in the configuration of relations between the two

superpowers and between the superpowers and the other major powers, notably Japan and China, and the uncertainties that result from this fluidity. These changes are taking place at the time when Indonesia's national development is increasingly influenced by changes in the international economy and developments in the Asia-Pacific region.

In view of these developments, and taking into account the need of the new generation of Indonesian leaders for their own legitimacy, the question is how pragmatic they will or can be in their foreign policy orientation. Given the nation's diversity, it is indeed difficult to imagine that the new leaders will not resort to a kind of "neo-nationalism." In concrete terms, the question is to what extent the new generation will be able to reconcile a non-aligned foreign policy posture with greater economic interdependence and cooperation with the "West," especially with the market economies of the Pacific.

The second challenge is that of formulating and implementing a consistent foreign policy which has a broad and national support and which assists national development efforts, in the face of greater pluralism and openness of the domestic political system. The experiences in the Philippines and in South Korea demonstrate the difficulties of formulating a consistent foreign policy that can accommodate various group interests. A freer press will add to the intensity of the debate on international issues and foreign policy directions.

Indonesia's non-aligned foreign policy posture is a national consensus that is likely to stay. However, its interpretation differs from one group to the other and, therefore, its implementation will also vary accordingly. An important question is whether in the

future the country's foreign policy will continue to be defined primarily in terms of economic interest, as it is generally the case under the New Order government. Another question is where the focus of Indonesia's foreign policy will be in the future. Perhaps, it is not too difficult to identify the main topics of Indonesia's foreign policy for the years to come. These would centre around ASEAN and Southeast Asia, Indonesia's interest and role in the broader regional economic cooperation in the Pacific, and Indonesia's policy responses to the changing strategic situation in the Pacific region.

ASEAN

Indonesia's commitment to ASEAN in the future will greatly depend upon ASEAN's development itself. The impression that has often been created is that ASEAN has been fostered mainly by the politico-diplomatic efforts of its members in relation to finding a political solution to the Kampuchean conflict. Given that a political settlement to this conflict can be expected to be reached in the near future, ASEAN's main challenge will be in the field of economic cooperation. Indeed, ASEAN can maintain its relevance only if it can strengthen its cooperation in the economic field. The Kampuchean problem, even though it may not be solved at the end of 1989 or at the beginning of 1990, is no longer an issue that can unite ASEAN because it is no longer relevant to ASEAN's diplomacy in Southeast Asia. This is clearly demonstrated by the drastic changes in Thailand's policy under Prime Minister Chatichai towards the conflict, and by the fact that the international community can live with the conflict which indeed does not exhibit the dangers of

escalation and which has not destabilized the region. But to be sure, Indonesia welcomes Prime Minister Chatichai's call to change Indochina from a battle field into a market place. Indeed, Indonesia's and Thai's external threat perceptions have come closer, and this will definitely strengthen ASEAN's unity. What is less clear is how Sino-Thai relations will develop in the future and how this will affect Southeast Asia.

Intra-ASEAN economic cooperation has been given a new boost at the third summit in Manila in December 1987. However, ASEAN also has realized that promoting economic cooperation with its major partners in the Pacific region is not only an economic necessity but it can strengthen ASEAN's cooperation itself. This was clearly expressed in the latest ASEAN foreign ministers meeting (AMM) in Brunei Darussalam in July 1989. ASEAN and its dialogue partners in the Pacific have positively responded to the initiative of the Australian Prime Minister, Hawke, to promote the idea of Pacific regional economic consultation and cooperation. There is a likelihood that this initiative could lead to the establishment of an ASEAN-based Pacific consultation and cooperation mechanism. Most ASEAN countries have proposed to base this forum on the ASEAN Post Ministerial Conference (PMC) that already meets annually. Malaysia prefers the ASEAN economic ministers meeting to be the core of such an ASEAN-based mechanism. Whatever will be agreed upon, the intergovernmental consultative mechanism can make use of the policy studies undertaken by the PECC (Pacific Economic Cooperation Conference) which also comprises much broader membership, to include China and Taiwan that are currently not taking part in the PMC.

Southeast Asia

The Southeast Asian region is definitely influenced by global strategic developments. Foremost is the continuous reduction in the presence and involvement of the super-powers in the region largely as a result of their domestic constraints, politically and economically, as well as a result of arms control and negotiations to reduce their military presence globally. This is in itself a desirable development, but it also creates new uncertainties as the possibility arises that other regional powers, Japan, China, and perhaps India, will attempt to fill the power vacuum.

The new power configuration towards multipolarity, especially if relations between the US and Japan continues to deteriorate, does not lead to a greater stability in the region than under bipolarity. Therefore, there is every reason for the medium and smaller countries, such as the ASEAN countries, to strengthen cooperation amongst themselves for their survival. This also adds to the determination of the ASEAN countries to implement the idea of ZOPFAN (Zone of Peace, Freedom and Neutrality) to the whole of Southeast Asia. ASEAN's idea, which dates back to the early days of its establishment, namely to promote closer cooperation with the Indochinese countries and Burma has become all the more relevant today and in the future. It is in this regard that Indonesia can play an increased regional and mediating role in view of the long history of its relations with those countries.

Economic Cooperation in the Asia-Pacific Region

As mentioned earlier, Indonesian leaders have clearly recognized the importance of

Indonesia's involvement in Pacific economic cooperation activities. However, its involvement needs to give due considerations to its political aspects. One important issue is how the majority of the Indonesian elite and the younger generation can reconcile this involvement with the country's non-aligned foreign policy posture.

The current international environment in itself will perhaps force countries to adopt a pragmatic stance on many international economic issues. Observations suggest that the global economic system is currently undergoing fundamental changes in a number of respects: a greater reliance on market forces and a reduced role of government interventions; a much greater role of technology and capital than labour and primary commodities in global production. This means that relations between the developed and the developing worlds, as structured along the North-South dialogue, or the UNCTAD and the Group of 77 approaches, no longer suffice. Pacific economic cooperation, which involves both developing and developed countries in an "open" regional setting, can overcome the above deficiency.

Given the above considerations, Indonesia's involvement in Pacific economic cooperation rests on the following premises. First, in order for a working mechanism to be established, at this infant stage, Pacific economic consultations and cooperation should be based on an ASEAN institution that is already in place. A "reformed" PMC has been proposed which will be a joint forum of foreign and economic ministers, and which include South Korea as a new participant. Second, that this regional cooperation should not lead to a regional economic bloc with a discriminatory trading arrangement. Third, that the membership be based

on a principle of openness, although its implementation should be gradual and take into account institutional capabilities. Thus, the involvement of the socialist countries in the region should not be excluded as a matter of principle but should be made dependent upon the degree of "compatibility" of their economies.

Strategic Developments in the Asia-Pacific Region

There are a number of strategic developments in the Asia-Pacific region which Indonesia should properly anticipate and assess. One is the reduction of the presence and involvement of the superpowers in the region and the uncertainties that will result from an increased presence of the major regional powers, Japan, China and perhaps also India. As suggested earlier, this uncertainty will lead the ASEAN countries to take more serious and real efforts to strengthen regional cooperation amongst themselves as well as with the Indochinese countries, Burma, and the Southwest Pacific region (Australia, New Zealand, and Papua New Guinea).

Another important development concerns the future relations between the US and Japan. If the US and Japan are successful in preventing further deterioration of their relationship and if they can even put a new, strong and healthy relationship into place, the regional environment will be quite favourable to Indonesia and ASEAN. Nonetheless, the strengthening of ASEAN should still be the agenda of the day as it would further enhance ASEAN's and Indonesia's leverage in regional and international affairs.

It can also be expected that Indonesia will continue with the efforts to develop and strengthen its relations with the Southwest Pacific, particularly with Australia and Papua New Guinea. The South Pacific is facing serious challenges resulting from the on-going generational and structural changes within the various societies. The ASEAN countries underwent a similar situation about one generation ago and they can offer those countries some useful assistance based on their experiences, both in the political and economic fields. Given its greater stake in this region's development and its geographic location, Indonesia can play a more active role in promoting ASEAN's relations with the Southwest Pacific region.

An important question that the next leaders of the country will have to address is whether Indonesia's foreign policy should take a higher profile and become more assertive or it should be rather low key and pragmatic as that of President Soeharto. If economic development continues to be given emphasis, then the implementation of an active and independent foreign policy in the future will not be drastically different from that of today. Perhaps, greater efforts and resources should be given to regional affairs which are much wider than ASEAN and Southeast Asia.

New Developments in International Relations

The borders between internal affairs and international developments have become blurred. This is not only observed in the economic field but also in the political and cultural fields. Therefore, new international issues have now emerged and nations are re-

quired to develop new approaches to dealing with them. These new issues include problems of pollution and environmental protection, human rights, terrorism, chemical warfare, and local conflicts. The core of the problem lies in the fact that interference in one's domestic affairs will be more difficult to define while the sensitivities perhaps remain as high.

There are reasons to believe that the younger generation, given its greater international exposure and better education, will be less sensitive to these issues. Moreover, pressures and demands for greater attention to those issues may come from within the society itself.

Concluding Notes

Indonesia's current bipartisan foreign policy is faced with new challenges arising from domestic, regional and international developments. The first challenge posed by internal changes is how the next generation of leaders will base their legitimacy. If a kind of "neo-nationalism" is adopted, the question is how pragmatic Indonesia's foreign policy is still going to be. The contention here is that the nature of the international environment itself will induce pragmatism into their policies.

The non-aligned foreign posture is very much in line with nationalism and neo-nationalism and is likely to remain as a national consensus. Thus, Indonesia's active involvement in the Non-aligned Movement, the Group of 77, UNCTAD and other Third World organizations is likely to continue for political or ideological reasons, but at the same time Indonesia will promote its involve-

ment in other cooperation arrangements which substantively contribute to its economic interests.

Perhaps the task of reconciling the two considerations becomes more difficult when confronted with concrete issues such as ZOPFAN, the Southeast Asian Nuclear Weapons Free Zone (NWFZ), the US bases in the Philippines and possibly later also US military facilities in Singapore or perhaps the US presence in the region in general. These issues are not new, but so far they have been handled in such a pragmatic fashion largely because of President Soeharto's personal preference and his dominant position in the policy making process.

On the subject of US presence in the region, it is still widely assumed that the US will at the end maintains its presence for its own strategic and economic interests. Definitely, the nature and the magnitude of its presence will be adjusted to internal and external developments. Indonesian leaders will never ask the US or any other powers to be present in the region. It should be clearly understood by both sides that US-Indonesia relations should be seen as a relationship between a superpower and a non-aligned country whose policies are moderate and "sympathetic to the West" for historical, geopolitical and economic reasons. The management of such relationship can become more complicated in the future. In addition to the problem of legitimacy of the next leadership as mentioned earlier, this complication can result from the process of policy formulation in which many more are participating. But a more self-confident, less xenophobic generation would ease the management of the relationship. In addition, mutual economic interests and benefit would bring the two countries closer together.

Book Reviews

Standard Book on Muhammadiyah

Muhammadiyah, the Political Behaviour of a Muslim Modernist Organization under Dutch Colonialism by Alfian. Yogyakarta: Gajah Mada University Press, 1989, 396 pp. This review article by Abdurrachman Surjomihardjo is translated from *Tempo*, August 12, 1989 by Daniel Setyawan.

THE PROCESS of socio-political change since the early twentieth century has been multi faceted with the growth of indigenous organisations. One of the most significant organisations which has been able to survive to date is Muhammadiyah.

Originally a non-political organisation purporting to pursue Islamic reform through education, Muhammadiyah has been able to penetrate deeply into the Muslim community and develop into a big and well-organised organisation. As an inseparable part of the socio-political process of change in Indonesia, from the outset its activities have

been undertaken in two directions, namely, towards Islamic reform and Indonesian nationality, which may be used as indicators in the modernisation process.

In this book Alfian seeks to explain the inter-relating roles that Muhammadiyah has to play, firstly as a religious reformer, secondly as an agent of social change, and thirdly as a political force during the period of 1912-1942. As a religious reformer, Muhammadiyah sets out to purify the tenets of the Islamic faith by eliminating superstition and the mix of traditional practices. Modern interpretation of the Quran and Hadist by ulemas is expected to meet the ever changing demands of the time. To achieve this aim its activities were undertaken through the *dakwah* and *tabligh* (propagation of faith), aside from preparing the youth through general education based on the Islamic religion.

As an agent of social change, Muhammadiyah aims at modernising the Muslim community by elevating them from various social and cultural backwardness. As a poli-

tical force, Muhammadiyah is to be analysed from the Islamic philosophical point of view that does not separate religion from politics. Besides, being a group concerned with the problem of the Muslim community's backwardness, Muhammadiyah has had to engage itself actively in politics from time to time, especially in the face of different local situations.

This happened after 1925, when the organisation spread into Minangkabau and Aceh. In the former region, Muhammadiyah became a radical political force. On the other hand, in Aceh it became a moderate political force, partly on account of its unsuccessful approach to the traditional elites, the ulemas and teukus.

Moderate political force also appeared in its birth-place, Yogyakarta, but it became a staunch supporter of the local Sarekat Islam's endeavours in containing Marxism with its centre in the Sarekat Islam in Semarang. This also placed Muhammadiyah in the midst of secular political parties, such as PKI (Indonesian Communist Party) and PNI (Indonesian Nationalist Party).

Attempting to position Muhammadiyah in a colonial situation for 30 years, Alfian examines the role played by Muhammadiyah within the framework of general development in the 20th century and its background. He divides Muhammadiyah's development into the period of its formation (1912-1924), the period of its ordeal and its rapid development (1924-1933), and the glorious period (1934-1942).

Those periods are supported by the data in the sources used. This makes Muhammadiyah's position in the colonial society clearer, especially in terms of its political attitude towards the colonial government and

with regard to its relationship with other indigenous organisations. Various political problems involving Muhammadiyah are properly analysed by the writer, namely when Muhammadiyah was in its glorious years.

Before this a lively analysis is given on Muhammadiyah's position and Indonesian nationalism, its development in Java, Minangkabau, and other regions. Quantitative data are also available in the tables. It began with 15 branches/groups in 1923, which later grew up to 921 in 1937.

All those have made Muhammadiyah the largest organisation in the midst of other Islamic organisations such as NU (*Nahdlatul Ulama*) and PSII (*Partai Syarikat Islam Indonesia* - Indonesian Islamic League Party). And in any movement for unity, as in the case of Masjlisul Islamil A'laa Indonesia (MIAI), Muhammadiyah undoubtedly constituted the largest group.

What is then the nature of Muhammadiyah's political behaviour discussed in this book? Generally speaking, there are three variations of its political behaviour. Firstly, its anti-establishment stance with regard to colonial society. Secondly, its stand towards the Indonesian nationalist movement. Thirdly, its behaviour as an active participant taking actions freely within the Indonesian Muslim community. Those three postures have indeed invited a lot of criticisms and caused misunderstanding. However, being an autonomous organisation, Muhammadiyah has proved able to survive until now, for 77 years.

This book may serve as a standard book on Muhammadiyah in general, providing an opportunity to researchers to make further indepth studies on the development process of the local and national situation since In-

donesia's independence. It also reflects a facet of the nationalist movement in its co-operative stance with the colonial government. However, from time to time it reveals a posture of defending religion and ren-

dering its services in the public interest.

It is unfortunate that this book is not provided with short biographies of the leading figures mentioned in the book.

A Correction to Avoid Disintegration

National Integration in Indonesia: Patterns and Policies by Christine Drake. Honolulu: University of Hawaii Press, 1989, 354 pp. This review article by Leo Suryadinata is translated from *Tempo*, September 30, 1989 by Daniel Setyawan.

INDONESIA is a nation comprising a variety of ethnic groups which have not as yet been totally integrated. Hence, uniting various ethnic groups and people of foreign descent has become a very important task for the government.

The way to unite those various ethnic groups and people of foreign descent is often referred to as national integration. Some people also use the terms nation-building or nation-forming.

Dr. Christine Drake, a geographer, once conducted a research in Indonesia in the 1970s. She claims that previous studies on national integration took up topics from sectoral points of view, namely, from the perspective of politicians, sociologists, anthropologists, or economists. However, in this work she uses an approach emphasizing

spatial aspects. These aspects encompass history, socio-culture, economies and interactions in the 27 provinces. She then combines these aspects in order to present spatial national integration patterns in Indonesia.

Drake first exposes the history of Indonesia and its uneven political experience. She writes that similar historical experience (except for Irian Jaya and East Timor) is important for the growth of the Indonesian nation, since that experience constitute a foundation.

Later Drake examines the socio-cultural dimension. By using the 1971 and 1980 statistics she points out that the number of Indonesian language users and students enjoying national education are steadily growing. She says that language and education play an important role in the integration of multifarious ethnic groups.

Besides, she also observes the existence of national symbols, the Pancasila ideology, and entertainments of national character (such as national films, radio and TV programmes) which help to promote a feeling of unity. Urbanisation has also encouraged integration:

Drake discusses the interactional dimension, namely, transportation and communication. Quoting statistics on railways, highways, and various vehicles (including the "archipelagic fleet" or ships and boats), Drake thinks that this transportation has accelerated national integration. This is also the case with radios, TV, newspapers, transmigration, and interregional trade.

Drake also analyses the economic dimension. Why economics? She holds that structurally and spatially, national integrity and political stability depend on economic integration. She points out that historically, economic development in Indonesia does not proceed evenly. Java has always been more advanced than outside Java. This has often given rise to resentment among the population outside Java. She writes that this uneven development has hampered national integration.

Statistics presented in some of those chapters are then combined into one by factor analysis. Lay people who do not understand social statistics may have difficulties in understanding this chapter (i.e. chapter 6). However, her findings are not difficult to understand. She finds out that the most integrated provinces constitute the most developed regions.

Besides, she also finds out that their patterns are also different from those of other countries. The distance from the capital city (Jakarta) does not always determine the degree of integration of a province. According to her, provinces which are closest to Jakarta have the lowest degree of integration and less developed economy, but regions which are farther away from the capital city

are even far more integrated and developed. Provinces most distant from Jakarta also show a low degree of integration and economic development.

Drake thinks that such provinces constitute a challenge to the continued existence of a nation. That challenge will be greater if these provinces are located not only far away from the centre, but have great economic potentials as well. Cases in point are Aceh, Irian Jaya and West Kalimantan.

Accordingly, how should one prevent the disintegration of a "nation?" Drake suggests that some corrections need to be made. For some provinces (such as Irian Jaya, East Java, and South Sulawesi), the most important thing is to strengthen their socio-cultural ties by increasing the literacy rate, the use of the Indonesian language, and basic education.

As to the other provinces (for example, West Sumatra and Central Kalimantan), the most important thing is to enhance spatial links or interactions, not only with the capital but also with other provinces. Many provinces need economic development and strengthening of socio-cultural ties.

It has to be admitted that analysing national integration in Indonesia by using statistics is seldom done. In some cases the use of statistics has supported the author's argument. Nevertheless, Drake herself admits that the statistical data obtained are not all reliable and are also incomplete. Another flaw is that not enough attention has been paid to the integration of people of foreign descent (especially Chinese), since that issue cannot be incorporated in her "spatial analysis."

The Blue-Eyed Enemy

The Blue-Eyed Enemy: Japan Against the West in Java and Luzon, 1942-1945 by Theodore Friend. Princeton: Princeton University Press, 1988, 325 pp. This review article is written by Dr. Onghokham.

THIS IS NOT the first work of Dr. Theodore Friend in which he compared the experiences of Indonesia and the Philippines during their most turbulent periods, the twentieth century, or better known as Java and Luzon during Western colonialism, Japanese occupation and independence.¹ He has justified his comparative methods in citing theories on it. However, every scholar, whether explicitly or not, has used the comparative method. Indonesian studies have had some portion of these comparative methods. There is also Clifford Geertz who on Islam compared Indonesian Islam with that of Morocco² in his *Agricultural Involution*,³ C. Geertz compared the developments of Indonesian (Javanese) Peasants with Japanese farmers. (Involution and Development)

Before Th. Friend and C. Geertz, there have been others using methods of comparison in a more explicit manner such as J.S. Furnivall⁴ comparing colonial rule in Burma with that of the Netherlands Indies, A. Vandenbosch,⁵ comparing Malaya and the Netherlands Indies and in a less explicit way, R. Kennedy,⁶ G. Bousquet⁷ who compares French colonial rule in North-Africa with Dutch rule in the Netherlands Indies.

One is struck by one aspect in all these comparative studies, which is the stress on the nature of the "autonomous developments and policies" of the colonies, the metropolitan powers and the outside as well as inside challenges. Rather than similarities and parallels one has looked for differences. *Critique* has been the standards of academics.

As always it strikes me that Dutch scholars have been less interested in colonial systems and colonial policies in Asia or elsewhere than their non-Dutch counterparts (British, French, Americans etc.) in the Dutch system. This Dutch colonial academic tradition of ignoring other colonies but their

¹Th. Friend, *Between Two Empires: The Ordeal of the Philippines 1929-1946* (Manila, Solidaridad Publishing House, 1969).

²C. Geertz, *Islam Observed: Religious Development in Morocco and Indonesia* (Chicago: University of Chicago Press, 1968).

³C. Geertz, *Agricultural Involution* (Berkeley: University of California Press, 1963).

⁴J.S. Furnivall, *Colonial Policy and Practice: A Comparative Study of Burma and Netherlands-India* (Cambridge, 1948).

⁵A. Vandenbosch, *The Dutch East Indies: Its Government, Problems and Politics* (Berkeley, 1944).

⁶R. Kennedy, *The Ageless Indies* (New York, 1942).

⁷G. Bousquet, *A French View of the Netherlands Indies* (London and New York, 1940).

own is perhaps still continued in present-day Indonesia. It is astonishing that one can hardly find an Indonesian scholar who is interested in neighbouring Southeast Asian or even ASEAN countries whereas among our neighbours there are scholars interested in Indonesian nationalism, revolution, literature etc. In other words Dutch-Netherlands Indies scholarly parochialism seems to continue until now in present-day Indonesia.

However, to go back to Th. Friend's work -- the comparison of Indonesia with the Philippines during the periods of Western colonialism, Japanese occupation and independence -- is a brilliantly conceived idea and the contrasts lucidly put forward, interspersed with some witty vignettes telling more than volumes on the differences in Western colonial experience between Indonesia and the Philippines. There was, for instance, the official visit by President Manuel Quezon in 1934 to the Netherlands Indies. Manuel Quezon was the first "Chief of State" of a Western dominated colonial country and in terms of its day the first "Malay" one as such, though only allowed a 19-gun salute instead of the 21-gun salute accorded to chiefs of states. Indonesian nationalists in Surabaya succeeded in inviting him to a small gathering. In a secretive way Manuel Quezon was conducted to a house where the doors and windows were locked. The Indonesian nationalists were asking him for advice on how to achieve independence. President Manuel Quezon of the Philippines Commonwealth clearly a bit suffocated by Javanese fears of Dutch Secret Police and probably also by fears of *Masuk Angin* (infected by bad odours of the night air) said spontaneously, "what you have to do first is open the doors and windows and make a lot of noise." Did the Indonesian nationalists of that time accept Quezon's advice? A year

before in 1933 one Indonesian nationalist leader and with him many others too, but this one, Ir. Soekarno -- later first president of Indonesia (1945-66) -- a figure as flamboyant as Manuel Quezon and in many other ways very much alike -- was exiled for making a lot of noise by the Dutch colonial government.

Another little vignette is so telling about Indonesian nationalist movements and hopes for independence. Three nationalist leaders led by Sutardjo of the famous Soetardjo-Petition in the Volksraad were proposing a *Rijksconferentie* to decide the political status of the colony towards the motherland met the most reactionary Governor-General of the twentieth century, J. de Jonge in a last farewell audience when de Jonge was leaving the Indies. This Governor General had sent the more vocal nationalist leaders Soekarno, Hatta, Syahrir and many others into exile. True to his (de Jonge's) statement that "We (the Dutch) have been here since three hundred years and will stay another three hundred years if necessary with the sabre (*klewang*) and stick (*knuppel*)," he received the delegation of Volksraad nationalists patronisingly. De Jonge expecting some nationalist demands got emotionally moved when Soetardjo and the other nationalists expressed their gratitude for de Jonge's services and care of the Indies.

De Jonge warned Soetardjo that the nationalists overestimated themselves when they demanded as recently Soetardjo did to promote more Indonesians into the higher ranks of the bureaucracy. Were there any Indonesians who could match Hart, de Kadt Angelino etc.? But perhaps in time they would get that far. For the moment everybody had just to do their duty.

Indeed, as far as the Dutch were concerned the political status quo of the Indies would last eternally. Yet a few more years later the Dutch were driven away by the Japanese and in less than a decade as from de Jonge's audience with Soetardjo an independent Indonesian Republic would be proclaimed. Moreover, after the first half of the twentieth century the process of decolonisation by Western powers in whatever part of the world was in full swing and the world "colonialism" became as reactionary as "feudal." A process was started by the US by giving a commonwealth status to the Philippines and a promise of independence in 1936 and in some way by the British in India which in pre-world war II days already was somewhat self-governing by Indians. However, at its time this has little impact on the international scene since the US and its Rooseveltian anti-colonial ideology was still drowned in its internationally isolationist morass, while in India changes in the colonial status quo came from within India itself, with its ancient civilisation and social structure (caste system) urban civilisation and modern nationalist movement.

Th. Friend does not bring British-Indian relationships into the picture, nor of any other Southeast-Asian colonial relationship except Indonesia and the Philippines with their respective colonial powers. A world-wide scheme of colonialism and its decolonisation process are missing. However, to do Th. Friend justice, it is not his concern. His concern is with national responses of both the imperial power to nationalist challenges and challenges from the colonised people to the imperial power.

If the Indies were everything to the Dutch and the Netherlands, the Philippines played a miniscule part within the US. Th. Friend

quoted that 1/7 of the Dutch GNP depended on the colonies, trade with the Indies was a major part, 40,000 Dutchmen from the Netherlands were employed in the Indies, where the entire Dutch community numbered some 200,000, whereas in the Philippines there were only less than 9,000 Americans. In short the Indies was to the Netherlands a colony as described by Raymond Kennedy. If the Indies was the cork on which Dutch prosperity floated, the Philippines was simply another military base to the US as Guam, Wake or even Hawaii. The Philippine defence was paid for by the US whereas defence in the Indies was borne by the colony.

No wonder American responses to Filipino nationalist aspirations differed widely from Dutch policies. Manuel Quezon was shouting in exasperation at the soft hands of the imperial power, for a harsher one would have whipped more nationalist Filipino sentiments. Indonesians meanwhile were crushed under the heavy hand of Dutch police measures. Economics were part of its explanation as well as the history of the US and the Netherlands as colonial powers and their respective geographic locations and sizes. Finally, however, the colonial histories of the Philippines and that of the Indies differ too, a point given less attention by Th. Friend. The Philippines was conquered by the US not only by defeating the Spanish overlords but also by defeating the Filipino revolutionaries who were on the point of driving away the Spaniards. Spanish colonialism has been given very little attention by Th. Friend and as a consequence the Filipino revolution against it at the end of the nineteenth century was dismissed.

In dismissing the Spanish inheritance and the Filipino revolution against it Th. Friend somewhat dismissed the colonised societies. In fact, the Philippines was the first

Asian country which organised itself to revolt against a colonial power, the Spanish, and yet during the American period also accepted US colonialism. On the other hand, historians have called Java and the Netherlands Indies the cradle of colonialism where Western (Dutch) dominance was accepted and grew out of diplomatic treaties with native elites. The Dutch too in the twentieth century understood that some modernising advancement was necessary among the native people, for instance through education and it was especially the education of the elite and small elite which was its target. The US in the Philippines aimed at a wider number of people in society and it paid off during the international crisis of the Pacific war against Japan.

The day of reckoning came with the outbreak of the Pacific war. Again there was a contrast between the Philippines and the Indies. The Filipinos fought on the side of the Americans. In facing the Japanese, the Filipinos were defending their country. When the Philippines was occupied by the Japanese, the people believed in Mac Arthur's promise of "I shall return" and waited this eagerly. The Filipinos awaited their liberation from the Americans and an American-Filipino guerilla against the Japanese was made possible. Whereas in the Indies people stood on the road side welcoming the invading Japanese army, probably the first time the Japanese army experienced such a welcome which was quite a new experience from the bitter attitudes of conquered peoples in China, the Philippines, Singapore and even in Malaya. In North Sumatra there was even an active underground anti-Dutch resistance and therefore in an indirect way supporting the Japanese. In the whole of the Indies the Dutch failed to organise a guerilla movement and not even a spy organisation

or any sort of underground movement to assist the allies. The so-called Indonesian underground (for instance Syarif cs.) did not send information to the allies or function in any other way which was militarily and otherwise harmful to the Japanese nor did any other organisation function as such. Dutch policies towards the colonised people extracted a price. Nobody saw in the return of the Dutch as liberation from the Japanese yoke. Neither was this expected from the Western allies who were thought of as restoring the colonial status-quo of pre-war days.

The Indonesian people and especially its leaders, co-operating with the Japanese, were left on their own. With the Japanese defeat in August 1945 Soekarno-Hatta proclaimed Indonesian independence. This Indonesian nationalist response in August 1945 had parallels in Burma and in Vietnam where there was no welcome either for the victorious Western powers. In the Philippines Mac Arthur liberated the islands and every American soldier was seen as an "angel of liberation."

A final note should perhaps be given to Japanese policies to the occupied Southeast Asian countries. Notwithstanding Indonesian co-operation especially of its nationalist leaders, cheering population at the progress of the Japanese armies into the Indies and the obedience of the Indonesian bureaucracy to the demands of the Japanese -- Indonesia was the last on the list to be "given" independence by the Japanese except for Malaya and Singapore. The Indies were not on the front line of the Western allies unlike the Philippines and Burma which were the first countries in the Asian Co-Prosperity Sphere to be given independence by Japan. Japanese policies, just as those of the Western

imperial powers, followed the practical dictates of needs in their policies rather than those of the subjected societies. If within the Japanese schemes Indonesia was the last to be given independence among the occupied Southeast Asian countries, the Dutch intended to keep their colonies in the East eternally as de Jonge had said.

However, the unique course of history in the post-war world has put everything in a different perspective. We are all familiar with its facts to need elaboration here. The Philippines was re-occupied by the Americans and Mac Arthur's promise in the "I" (and not "We") shall return fulfilled, Mac Arthur and the Americans were welcomed back to the Philippines as liberators -- there was no power -- vacuum in the Philippines when Japan surrendered to the Allies on August 15, 1945 -- as there was in Indonesia. In Indonesia Soekarno-Hatta, the nationalists, proclaimed Indonesia's independence in a power vacuum and revolutionary organisations took over power.

It is in discussing the post-Pacific war developments in Southeast Asia that Th. Friend such as others on Southeast Asia, notably A. Reid, brings Vietnam into the picture of comparative decolonisation processes. He emphasizes the revolutionary nature of the Indonesian nationalisation of Dutch assets and later of others in 1957 as very revolutionary in character, truly nationalistic but nevertheless revolutionary. The "brown man" (Indonesian) replacing the White Man (Dutch) at all levels, as Roeslan Abdulgani once said in a Dutch television interview as the aims of the Indonesian revolution. In short Th. Friend believes that the Indonesian revolution had seen many drastic changes. However, unlike in Vietnam it was not a social revolution and it succeeded in

becoming a battlefield of the cold war dominating the international scene of the post war world.

In his last chapter Th. Friend draws some conclusions based on psychology, a field of discipline which most historians try not to indulge in -- since hard evidence and facts are so hard to establish in this very speculative field. Nevertheless some very thought provoking questions are raised by Th. Friend by using psychology. His use of psychology as a discipline in explaining twentieth century colonialism, Japanese expansionism/ "liberation," and postwar developments has probably a very sound academic basis than more traditional historians have in dealing with the pre-twentieth century world. Politics and wars in this modern period of the twentieth century are fought by propaganda and with idealistic/ideological aims, perhaps more than in any previous century, especially since modern techniques of communications such as radio, newspapers and other mass media can create national motives.

Japan's drive to resist the Western powers in the 15th century by its Meiji-restoration, to become powerful and to wage war with the West during the Pacific-War, then ending in defeat and occupation, Th. Friend has put those into the picture of Japanese legends, myths and history of "nationalist" defender, liberator-martyr/victorious hero, heroic martyr-liberator and as "neo-Shogun."

In this historical psycho-analysis Th. Friend claims that the Philippines never lost its "Mother-America" ideal and hence the various military and economic agreements with the US, such as military bases and sugar quotas between the Philippines and the US

Mother-America. This mother-figure rather than a father-figure, has never been really replaced in the Philippines. In Indonesia, the 1945 Proclamation of the Independent Republic of Indonesia rejected the Dutch Mother-Figure and was replaced by *Ibu-Pertiwi*. Mothers perhaps much more than fathers in Indonesian homes (reviewer's

view) are the centre of stability and order. This Indonesian rejection of the "Dutch-Mother" by Indonesians did not come earlier when large Javanese crowds welcomed the invading Japanese army with joy in March 1942, which did not happen when the Japanese marched into Manila and other Filipino towns.

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